WELLS FARGO & COMPANY/MN
Form 10-Q
August 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

Commission file number **001-2979**

WELLS FARGO & COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**No. 41-0449260**
(State of incorporation)	(I.R.S. Employer Identification No.)

420 Montgomery Street, San Francisco, California 94163

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **1-866-249-3302**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

	Shares Outstanding
	July 31, 2012
Common stock, $1-2/3 par value	5,282,185,586

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PART I - FINANCIAL INFORMATION

FINANCIAL REVIEW

Summary Financial Data

($ in millions, except per share amounts)		Quarter ended			% Change June 30, 2012 from		Six months ended		
		June 30, 2012	March 31, 2012	June 30, 2011	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011	% Change
For the Period									
Wells Fargo net income	$	**4,622**	4,248	3,948	9 %	17	**8,870**	7,707	15 %
Wells Fargo net income applicable to common stock		**4,403**	4,022	3,728	9	18	**8,425**	7,298	15
Diluted earnings per common share		**0.82**	0.75	0.70	9	17	**1.57**	1.37	15
Profitability ratios (annualized):									
Wells Fargo net income to average assets (ROA)		**1.41 %**	1.31	1.27	8	11	**1.36**	1.25	9
Wells Fargo net income applicable to common stock to average Wells Fargo common stockholders equity (ROE)		**12.86**	12.14	11.92	6	8	**12.51**	11.95	5
Efficiency ratio (1)		**58.2**	60.1	61.2	(3)	(5)	**59.1**	61.9	(5)
Total revenue	$	**21,289**	21,636	20,386	(2)	4	**42,925**	40,715	5
Pre-tax pre-provision profit (PTPP) (2)		**8,892**	8,643	7,911	3	12	**17,535**	15,507	13
Dividends declared per common share		**0.22**	0.22	0.12	-	83	**0.44**	0.24	83
Average common shares outstanding		**5,306.9**	5,282.6	5,286.5	-	-	**5,294.9**	5,282.7	-
Diluted average common shares outstanding		**5,369.9**	5,337.8	5,331.7	1	1	**5,354.3**	5,329.9	-
Average loans	$	**768,223**	768,582	751,253	-	2	**768,403**	752,657	2
Average assets		**1,321,584**	1,302,921	1,250,945	1	6	**1,312,252**	1,246,088	5
Average core deposits (3)		**880,636**	870,516	807,483	1	9	**875,576**	802,184	9
Average retail core deposits (4)		**624,329**	616,569	592,974	1	5	**620,445**	588,561	5
Net interest margin		**3.91 %**	3.91	4.01	-	(2)	**3.91**	4.03	(3)
At Period End									
Securities available for sale	$	**226,846**	230,266	186,298	(1)	22	**226,846**	186,298	22
Loans		**775,199**	766,521	751,921	1	3	**775,199**	751,921	3
Allowance for loan losses		**18,320**	18,852	20,893	(3)	(12)	**18,320**	20,893	(12)
Goodwill		**25,406**	25,140	24,776	1	3	**25,406**	24,776	3
Assets		**1,336,204**	1,333,799	1,259,734	-	6	**1,336,204**	1,259,734	6
Core deposits (3)		**882,137**	888,711	808,970	(1)	9	**882,137**	808,970	9
Wells Fargo stockholders equity		**148,070**	145,516	136,401	2	9	**148,070**	136,401	9
Total equity		**149,437**	146,849	137,916	2	8	**149,437**	137,916	8
Tier 1 capital (5)		**117,856**	117,444	113,466	-	4	**117,856**	113,466	4
Total capital (5)		**149,813**	150,788	149,538	(1)	-	**149,813**	149,538	-
Capital ratios:									
Total equity to assets		**11.18 %**	11.01	10.95	2	2	**11.18**	10.95	2
Risk-based capital (5):									
Tier 1 capital		**11.69**	11.78	11.69	(1)	-	**11.69**	11.69	-
Total capital		**14.85**	15.13	15.41	(2)	(4)	**14.85**	15.41	(4)
Tier 1 leverage (5)		**9.25**	9.35	9.43	(1)	(2)	**9.25**	9.43	(2)
Tier 1 common equity (6)		**10.08**	9.98	9.15	1	10	**10.08**	9.15	10
Common shares outstanding		**5,275.7**	5,301.5	5,278.2	-	-	**5,275.7**	5,278.2	-
Book value per common share	$	**26.06**	25.45	23.84	2	9	**26.06**	23.84	9
Common stock price:									
High		**34.59**	34.59	32.63	-	6	**34.59**	34.25	1
Low		**29.80**	27.94	25.26	7	18	**27.94**	25.26	11

Period end	**33.44**	34.14	28.06	(2)	19	**33.44**	28.06	19
Team members (active, full-time equivalent)	**264,400**	264,900	266,600	-	(1)	**264,400**	266,600	(1)

(1) The efficiency ratio is noninterest expense divided by total revenue (net interest income and noninterest income).
(2) Pre-tax pre-provision profit (PTPP) is total revenue less noninterest expense. Management believes that PTPP is a useful financial measure because it enables investors and others to assess the Company s ability to generate capital to cover credit losses through a credit cycle.
(3) Core deposits are noninterest-bearing deposits, interest-bearing checking, savings certificates, certain market rate and other savings, and certain foreign deposits (Eurodollar sweep balances).
(4) Retail core deposits are total core deposits excluding Wholesale Banking core deposits and retail mortgage escrow deposits.
(5) See Note 20 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report for additional information.
(6) See the Capital Management section in this Report for additional information.

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This Quarterly Report, including the Financial Review and the Financial Statements and related Notes, contains forward-looking statements, which may include forecasts of our financial results and condition, expectations for our operations and business, and our assumptions for those forecasts and expectations. Do not unduly rely on forward-looking statements. Actual results may differ materially from our forward-looking statements due to several factors. Factors that could cause our actual results to differ materially from our forward-looking statements are described in this Report, including in the Forward-Looking Statements section, and the Risk Factors and Regulation and Supervision sections of our Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Form 10-K).

When we refer to Wells Fargo, the Company, we, our or us in this Report, we mean Wells Fargo & Company and Subsidiaries (consolidated). When we refer to the Parent, we mean Wells Fargo & Company. When we refer to legacy Wells Fargo, we mean Wells Fargo excluding Wachovia Corporation (Wachovia). See the Glossary of Acronyms at the end of this Report for terms used throughout this Report.

Financial Review

Overview

Wells Fargo & Company is a diversified financial services company with $1.3 trillion in assets. Founded in 1852 and headquartered in San Francisco, we provide banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage services and consumer and commercial finance through more than 9,000 stores, 12,000 ATMs, the internet and other distribution channels to individuals, businesses and institutions across North America and internationally. With approximately 265,000 active, full-time equivalent team members, we serve one in three households in America and ranked No. 26 on *Fortune s* 2012 rankings of America s largest corporations. We ranked fourth in assets and first in the market value of our common stock among all U.S. banks at June 30, 2012.

Our vision is to satisfy all our customers financial needs, help them succeed financially, be recognized as the premier financial services company in our markets and be one of America s great companies. Our primary strategy to achieve this vision is to increase the number of our products our customers utilize and to offer them all of the financial products that fulfill their needs. Our cross-sell strategy, diversified business model and the breadth of our geographic reach facilitate growth in both strong and weak economic cycles, as we can grow by expanding the number of products our current customers have with us, gain new customers in our extended markets, and increase market share in many businesses. Our retail bank household cross-sell increased each quarter during 2011, as well as in first quarter 2012, and in May 2012 we achieved a milestone of 6.00 products per household, up from 5.82 in May 2011. We believe there is more opportunity for cross-sell as we continue to earn more business from our customers. Our goal is eight products per customer, which is approximately half of our estimate of potential demand for an average U.S. household. At May 31, 2012, one of every four of our retail banking households had eight or more products.

Our pursuit of growth and earnings performance is influenced by our belief that it is important to maintain a well controlled operating environment. We manage our credit risk by establishing what we believe are sound credit policies for underwriting new business, while monitoring and reviewing the

performance of our loan portfolio. We manage the interest rate and market risks inherent in our asset and liability balances within established ranges, while ensuring adequate liquidity and funding. We maintain strong capital levels to facilitate future growth.

Expense management is also important to us, but our efforts are not intended to adversely affect revenue. Our current company-wide expense management initiative, which we publicly announced with our second quarter 2011 results, is focused on removing unnecessary complexity and eliminating duplication as a way to improve our customers experience and the work process of our team members. Our expenses, however, are driven in part by our revenue opportunities. Given the continued momentum in revenue opportunities in second quarter 2012, including a record number of mortgage applications, and our continued reinvestment in our businesses, we currently expect fourth quarter 2012 noninterest expense to be higher than our previously announced target of $11.25 billion. Reflecting these higher revenue opportunities, we believe our efficiency ratio, which measures our noninterest expense as a percentage of total revenue, is a better measure of our expense management than specific dollar estimates. We have targeted an efficiency ratio of 55 to 59%, and our efficiency ratio of 58.2% in second quarter 2012 was within this target range. For the remainder of 2012, we expect noninterest expense to decline from second quarter 2012 levels and that we will operate within our targeted efficiency ratio range.

Financial Performance

We reported strong financial results in second quarter 2012 driven by a $903 million increase in total revenues and $78 million decrease in noninterest expenses as compared to second quarter 2011. Wells Fargo net income was $4.6 billion and diluted earnings per common share were $0.82 in second quarter 2012, each up 17% from the prior year. Second quarter 2012 was our tenth consecutive quarter of earnings per share growth. Total revenue was $21.3 billion in second quarter 2012, up 4% from the prior year. Credit quality trends continued to show improvement in second quarter 2012, with reductions in net losses, nonperforming assets, nonaccrual loans, and loans 90 days or more past due and still accruing. Our return on assets of 1.41% was up 14 basis points from the prior year and our return on equity of 12.86% was up 94 basis points.

Our net income growth from second quarter 2011 was primarily driven by higher noninterest income as well as higher net interest income and lower noninterest expenses.

The 4% year-over-year increase in second quarter 2012 revenue predominantly reflects increased mortgage banking net gains on mortgage loan origination/sales activities due to higher margins and the continued low interest rate environment which contributed to higher loan applications. Net gains on mortgage loan originations/sales activities were negatively affected in second quarter 2012 by a provision of $669 million for mortgage loan repurchases losses, compared with a provision of $242 million in second quarter 2011. As a result of increased mortgage loan applications our unclosed mortgage loan pipeline at June 30, 2012, was $102 billion, the second largest in our history.

Noninterest expense of $12.4 billion in second quarter 2012 was down from $12.5 billion in second quarter 2011. Our efficiency ratio of 58.2% in second quarter 2012 improved by 300 basis points from a year ago and was at the lowest level in nine quarters. Second quarter 2012 noninterest expense included $524 million of operating losses, up from $428 million for the prior year, predominantly due to additional litigation accruals.

Our balance sheet continued to strengthen in second quarter 2012 with core loan growth and growth in average core deposits. Our non-strategic/liquidating loan portfolios decreased $5.1 billion during the quarter and, excluding the planned runoff of these loans, our core loan portfolios increased $13.8 billion. Included in our core loan growth was $6.9 billion of commercial loans acquired during the quarter in connection with the acquisition of WestLB s subscription finance loan portfolio and BNP Paribas s North American energy lending business. Our securities portfolios decreased $3.4 billion during second quarter 2012 as new investments were more than offset by the call of lower-yielding securities and portfolio run-off. Our average core deposits were up $10.1 billion from first quarter 2012 and up $73.2 billion, or 9%, from a year ago. We have grown deposits while reducing our deposit costs for seven consecutive quarters. Our costs on average deposits in second quarter 2012 were 19 basis points, down 9 basis points from the same quarter a year ago. Our average core deposits were 115% of average loans in second quarter 2012, up from 107% for the second quarter last year.

Credit Quality

Our key credit quality indicators continued to improve during second quarter 2012. Net charge-offs of $2.2 billion were 1.15% (annualized) of average loans, down 37 basis points from 1.52% a year ago, our lowest charge-off rate since 2007. Loans 90 days or more past due and still accruing (excluding government insured/guaranteed loans) decreased to $1.4 billion from $2.0 billion at December 31, 2011. Nonperforming assets decreased by $1.1 billion to $24.9 billion at June 30, 2012, from $26.0 billion at December 31, 2011. The year to date decrease is inclusive of the offsetting impact of our $1.7 billion reclassification of real estate 1-4 family junior lien mortgages to nonaccrual status in

first quarter 2012 in accordance with junior lien mortgage industry guidance issued by bank regulators during that quarter. The improvement in our credit portfolio was due in part to the continued decline in balances in our non-strategic/liquidating loan portfolios, which decreased $5.1 billion during the quarter, and $87.7 billion in total since the beginning of 2009, to $103.1 billion at June 30, 2012.

With the continued credit performance improvement in our loan portfolios, our $1.8 billion provision for credit losses in second quarter 2012 was $38 million less than a year ago. The provision included a release of $400 million from the allowance for credit losses (the amount by which net charge-offs exceeded the provision), compared with a release of $1.0 billion a year ago. Absent significant deterioration in the economy, we expect continued but more modest improvement in credit performance for the remainder of the year, and we continue to expect future allowance releases in 2012.

Capital

Our capital position continued to grow in second quarter 2012, as total equity increased by $2.6 billion from the prior quarter to $149.4 billion and our Tier 1 common equity ratio grew 10 basis points during the quarter to 10.08% of risk-weighted assets under Basel I.

In June 2012, the three federal banking agencies, including the Board of Governors of the Federal Reserve System (FRB), jointly published notices of proposed rulemaking, which would substantially amend the risk-based capital rules for banks. The proposed capital rules are intended to implement in the U.S. the Basel III regulatory capital reforms, comply with changes required by the Dodd-Frank Act, and replace the existing Basel I-based capital requirements. Based on our current interpretation of the proposed Basel III capital rules contained in the notices of proposed rulemaking, we estimate that our Tier 1 common equity ratio was 7.78% at June 30, 2012.

Our other regulatory capital ratios remained strong with a small decrease in the Tier 1 capital ratio to 11.69% and Tier 1 leverage ratio to 9.25% at June 30, 2012, compared with 11.78% and 9.35%, respectively, at March 31, 2012. See the Capital Management section in this Report for more information regarding our capital, including Tier 1 common equity.

In second quarter 2012 we repurchased approximately 53 million shares of common stock and entered into a forward repurchase contract to repurchase an estimated 11 million shares expected to settle in third quarter 2012. We also paid quarterly common stock dividends of $0.22 per share, and redeemed $2.7 billion of trust preferred securities with an average coupon of 6.33%.

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Earnings Performance

Wells Fargo net income for second quarter 2012 was $4.6 billion ($0.82 diluted earnings per common share) compared with $3.9 billion ($0.70 diluted earnings per common share) for second quarter 2011. Net income for the first half of 2012 was $8.9 billion compared with $7.7 billion for the same period a year ago. Our June 30, 2012, quarterly and six month earnings reflected strong execution of our business strategy and growth throughout many of our businesses. The key drivers of our financial performance in second quarter 2012 were continued improved credit quality, strong mortgage banking results, diversified sources of fee income, balanced net interest and fee income, and a diversified loan portfolio.

Revenue, the sum of net interest income and noninterest income, was $21.3 billion in second quarter 2012, compared with $20.4 billion in second quarter 2011. Revenue for the first half of 2012 was $42.9 billion, up 5% from a year ago. The increase in revenue for the second quarter and first half of 2012 was due to growth in noninterest income, predominantly from mortgage banking, as well as modest growth in net interest income. Mortgage banking revenue in second quarter 2012 increased 79% from a year ago with strong originations and margins reflecting some stabilization in the housing market and the low interest rate environment. Mortgage originations were $131 billion in second quarter 2012, more than double what they were a year ago. The unclosed mortgage pipeline at June 30, 2012, was very strong at $102 billion, up 100% from second quarter 2011. In addition to mortgage banking, businesses generating double-digit year-over-year revenue growth for second quarter 2012 included capital markets, commercial banking, commercial real estate, corporate trust, asset backed finance, merchant services, government and institutional banking, global remittance services and business payroll services. Net interest income was $11.0 billion in second quarter 2012, representing 52% of revenue, compared with $10.7 billion (52%) in second quarter 2011. Continued success in generating low-cost deposits enabled us to grow assets by funding loans and securities growth while reducing higher cost long-term debt.

Noninterest income was $10.3 billion in second quarter 2012, representing 48% of revenue, compared with $9.7 billion (48%) in second quarter 2011. Noninterest income was $21.0 billion for the first half of 2012 compared with $19.4 billion for the same period a year ago. The increase in noninterest income for the second quarter and first half of 2012 was driven by increases in net gains on mortgage loan origination/sales activities as well as service charges on deposit accounts.

Noninterest expense was $12.4 billion in second quarter 2012, compared with $12.5 billion in second quarter 2011. Noninterest expense was $25.4 billion for the first half of 2012 compared with $25.2 billion for the same period a year ago. The decrease in noninterest expense in second quarter 2012 from second quarter 2011 was predominantly due to lower merger-related integration expense, offset by higher revenue-based commissions and incentive compensation. Our efficiency ratio was 58.2% in second quarter 2012 compared with 61.2% in second quarter 2011, reflecting our expense management efforts and revenue growth.

Net Interest Income

Net interest income is the interest earned on debt securities, loans (including yield-related loan fees) and other interest-earning assets minus the interest paid for deposits, short-term borrowings and long-term debt. The net interest margin is the average yield on earning assets minus the average interest rate paid for deposits and our other sources of funding. Net interest income and the net interest margin are presented on a taxable-equivalent basis in Table 1 to consistently reflect income from taxable and tax-exempt loans and securities based on a 35% federal statutory tax rate.

Net interest income and the net interest margin are significantly influenced by the mix and overall size of our earning asset portfolio and the cost of funding those assets. In addition, some sources of interest income, such as loan prepayment fees and collection of interest on nonaccrual loans, can vary from period to period. Net interest income on a taxable-equivalent basis was $11.2 billion and $22.3 billion in the second quarter and first half of 2012, compared with $10.9 billion and $21.7 billion for the same periods a year ago. The net interest margin was 3.91% for both the second quarter and first half of 2012, down from 4.01% and 4.03% for the same periods a year ago. The increase in net interest income was largely driven by loan growth, redeployment of short-term investments into available-for-sale securities, disciplined deposit pricing, debt maturities and redemptions of higher yielding trust preferred securities, which offset the impact of higher yielding loan and investment runoff. Continued runoff of higher yielding assets was the primary driver of the decline in net interest margin in second quarter 2012 compared with second quarter 2011. Pressure on our second quarter 2012 net interest margin was in part offset by variable sources of interest income, including resolution of PCI loans. We expect continued pressure on our net interest margin as the balance sheet reprices in the current low interest rate environment.

Average earning assets increased $66.4 billion and $63.1 billion in the second quarter and first half of 2012 from a year ago, as average securities available for sale increased $54.3 billion and $56.6 billion, and average mortgages held for sale increased $18.9 billion and $13.5 billion for the same periods, respectively. In addition, solid commercial loan demand offset the impact of liquidating certain loan portfolios, resulting in $17.0 billion and $15.7 billion higher average loans in the second quarter and first half of 2012 compared with a year ago. These increases in average securities available for sale, mortgages held for sale and average loans were predominantly offset by a $27.3 billion and $27.4 billion decline in average short-term investments from the second quarter and first half of 2011.

Core deposits are an important low-cost source of funding and affect both net interest income and the net interest margin. Core deposits include noninterest-bearing deposits, interest-bearing checking, savings certificates, market rate and other savings, and certain foreign deposits (Eurodollar sweep balances). Average core deposits rose to $880.6 billion in second quarter 2012 ($875.6 billion in the first half of 2012) compared with $807.5 billion in second quarter 2011 ($802.2 billion in the first half of 2011) and funded 115% of average loans in second

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quarter 2012 (114% in the first half of 2012) compared with 107% a year ago (107% for the first half of 2011). Average core deposits increased to 76% and 77% of average earning assets in second quarter and first half of 2012, respectively, compared with 74% for each respective period a year ago. The cost of these deposits has continued to decline due to a sustained low interest rate environment and a shift in our deposit mix from higher cost certificates of deposit to lower yielding checking and savings products. About 93% of our average core deposits are in checking and savings deposits, one of the highest industry percentages.

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Earnings Performance ***(continued)***

Table 1: Average Balances, Yields and Rates Paid (Taxable-Equivalent Basis) (1)(2)

	Quarter ended June 30,					
	2012			**2011**		
(in millions)	**Average balance**	**Yields/ rates**	**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
Earning assets						
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 71,250**	**0.47 %**	**$ 83**	98,519	0.32 %	$ 80
Trading assets	**42,614**	**3.27**	**348**	38,015	3.71	352
Securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	**1,954**	**1.60**	**8**	2,058	2.33	12
Securities of U.S. states and political subdivisions	**34,560**	**4.39**	**379**	22,536	5.35	302
Mortgage-backed securities:						
Federal agencies	**95,031**	**3.37**	**800**	70,891	4.76	844
Residential and commercial	**33,870**	**6.97**	**591**	29,981	8.86	664
Total mortgage-backed securities	**128,901**	**4.32**	**1,391**	100,872	5.98	1,508
Other debt and equity securities	**48,915**	**4.39**	**535**	34,580	5.81	502
Total securities available for sale	**214,330**	**4.32**	**2,313**	160,046	5.81	2,324
Mortgages held for sale (4)	**49,528**	**3.86**	**477**	30,674	4.73	362
Loans held for sale (4)	**833**	**5.48**	**12**	1,356	5.05	17
Loans:						
Commercial:						
Commercial and industrial	**171,776**	**4.21**	**1,801**	153,630	4.60	1,761
Real estate mortgage	**105,509**	**4.60**	**1,208**	101,437	4.16	1,051
Real estate construction	**17,943**	**4.96**	**221**	21,987	4.64	254
Lease financing	**12,890**	**6.86**	**221**	12,899	7.72	249
Foreign	**38,917**	**2.57**	**249**	36,445	2.65	241
Total commercial	**347,035**	**4.28**	**3,700**	326,398	4.37	3,556
Consumer:						
Real estate 1-4 family first mortgage	**230,065**	**4.62**	**2,658**	224,873	4.97	2,792
Real estate 1-4 family junior lien mortgage	**82,076**	**4.30**	**878**	91,934	4.25	975
Credit card	**22,065**	**12.70**	**697**	20,954	12.97	679
Other revolving credit and installment	**86,982**	**6.09**	**1,317**	87,094	6.32	1,372
Total consumer	**421,188**	**5.29**	**5,550**	424,855	5.48	5,818
Total loans (4)	**768,223**	**4.83**	**9,250**	751,253	5.00	9,374
Other	**4,486**	**4.56**	**51**	4,997	4.10	52
Total earning assets	**$ 1,151,264**	**4.37 %**	**$ 12,534**	1,084,860	4.64 %	$ 12,561

Funding sources

Deposits:									
Interest-bearing checking	$	**30,440**	**0.07 %**	$	**5**	53,344	0.09 %	$	12
Market rate and other savings		**500,327**	**0.12**		**152**	455,126	0.20		226
Savings certificates		**60,341**	**1.34**		**200**	72,100	1.42		256
Other time deposits		**12,803**	**1.83**		**59**	12,988	2.03		67
Deposits in foreign offices		**65,587**	**0.17**		**27**	57,899	0.23		33
Total interest-bearing deposits		**669,498**	**0.27**		**443**	651,457	0.37		594
Short-term borrowings		**51,698**	**0.19**		**24**	53,340	0.18		24
Long-term debt		**127,660**	**2.48**		**789**	145,431	2.78		1,009
Other liabilities		**10,408**	**2.48**		**65**	10,978	3.03		83
Total interest-bearing liabilities		**859,264**	**0.62**		**1,321**	861,206	0.80		1,710
Portion of noninterest-bearing funding sources		**292,000**	**-**		**-**	223,654	-		-
Total funding sources	$	**1,151,264**	**0.46**		**1,321**	1,084,860	0.63		1,710
Net interest margin and net interest income on a taxable-equivalent basis (5)			**3.91 %**	$	**11,213**		4.01 %	$	10,851
Noninterest-earning assets									
Cash and due from banks	$	**16,200**				17,373			
Goodwill		**25,332**				24,773			
Other		**128,788**				123,939			
Total noninterest-earning assets	$	**170,320**				166,085			
Noninterest-bearing funding sources									
Deposits	$	**254,442**				199,339			
Other liabilities		**58,441**				53,169			
Total equity		**149,437**				137,231			
Noninterest-bearing funding sources used to fund earning assets		**(292,000)**				(223,654)			
Net noninterest-bearing funding sources	$	**170,320**				166,085			
Total assets	$	**1,321,584**				1,250,945			

(1) Our average prime rate was 3.25% for the quarters ended June 30, 2012 and 2011, and 3.25% for the first six months of both 2012 and 2011. The average three-month London Interbank Offered Rate (LIBOR) was 0.47% and 0.26% for the quarters ended June 30, 2012 and 2011, respectively, and 0.49% and 0.29%, respectively, for the first six months of 2012 and 2011.
(2) Yield/rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.
(3) Yields and rates are based on interest income/expense amounts for the period, annualized based on the accrual basis for the respective accounts. The average balance amounts represent amortized cost for the periods presented.
(4) Nonaccrual loans and related income are included in their respective loan categories.
(5) Includes taxable-equivalent adjustments of $176 million and $173 million for the quarters ended June 30, 2012 and 2011, respectively, and $346 million and $334 million for the first six months of 2012 and 2011, respectively, primarily related to tax-exempt income on certain loans and securities. The federal statutory tax rate utilized was 35% for the periods presented.

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						Six months ended June 30,	
			2012				2011
(in millions)	**Average balance**	**Yields/ rates**		**Interest income/ expense**	Average balance	Yields/ rates	Interest income/ expense
Earning assets							
Federal funds sold, securities purchased under resale agreements and other short-term investments	**$ 63,635**	**0.49 %**		**$ 156**	90,994	0.34 %	$ 152
Trading assets	**43,190**	**3.39**		**731**	37,711	3.76	708
Securities available for sale (3):							
Securities of U.S. Treasury and federal agencies	**3,875**	**1.13**		**22**	1,804	2.56	23
Securities of U.S. states and political subdivisions	**33,578**	**4.45**		**747**	21,220	5.39	572
Mortgage-backed securities:							
Federal agencies	**93,165**	**3.43**		**1,597**	70,656	4.74	1,676
Residential and commercial	**34,201**	**6.89**		**1,178**	30,104	9.28	1,396
Total mortgage-backed securities	**127,366**	**4.36**		**2,775**	100,760	6.10	3,072
Other debt and equity securities	**49,658**	**4.10**		**1,015**	34,093	5.68	967
Total securities available for sale	**214,477**	**4.26**		**4,559**	157,877	5.87	4,634
Mortgages held for sale (4)	**48,218**	**3.88**		**936**	34,686	4.61	799
Loans held for sale (4)	**790**	**5.29**		**21**	1,167	4.98	29
Loans:							
Commercial:							
Commercial and industrial	**169,279**	**4.20**		**3,534**	151,849	4.62	3,484
Real estate mortgage	**105,750**	**4.33**		**2,280**	100,621	4.04	2,018
Real estate construction	**18,337**	**4.87**		**444**	23,128	4.44	509
Lease financing	**13,009**	**7.89**		**513**	12,959	7.78	504
Foreign	**40,042**	**2.54**		**507**	35,050	2.73	476
Total commercial	**346,417**	**4.22**		**7,278**	323,607	4.35	6,991
Consumer:							
Real estate 1-4 family first mortgage	**229,859**	**4.66**		**5,346**	227,208	4.99	5,659
Real estate 1-4 family junior lien mortgage	**83,397**	**4.28**		**1,778**	93,313	4.30	1,993
Credit card	**22,097**	**12.81**		**1,408**	21,230	13.08	1,388
Other revolving credit and installment	**86,633**	**6.14**		**2,646**	87,299	6.34	2,743
Total consumer	**421,986**	**5.31**		**11,178**	429,050	5.51	11,783
Total loans (4)	**768,403**	**4.82**		**18,456**	752,657	5.01	18,774
Other	**4,545**	**4.49**		**103**	5,111	4.00	102
Total earning assets	**$ 1,143,258**	**4.38 %**		**$ 24,962**	1,080,203	4.69 %	$ 25,198
Funding sources							
Deposits:							
Interest-bearing checking	**$ 31,299**	**0.06 %**		**$ 10**	55,909	0.09 %	$ 26
Market rate and other savings	**498,177**	**0.12**		**305**	449,388	0.21	463
Savings certificates	**61,515**	**1.35**		**413**	73,229	1.41	511
Other time deposits	**12,727**	**1.88**		**119**	13,417	2.14	143
Deposits in foreign offices	**65,217**	**0.16**		**53**	57,687	0.23	66
Total interest-bearing deposits	**668,935**	**0.27**		**900**	649,630	0.38	1,209
Short-term borrowings	**50,040**	**0.17**		**43**	54,041	0.20	54
Long-term debt	**127,599**	**2.54**		**1,619**	147,774	2.86	2,113
Other liabilities	**10,105**	**2.55**		**129**	10,230	3.13	159
Total interest-bearing liabilities	**856,679**	**0.63**		**2,691**	861,675	0.82	3,535
Portion of noninterest-bearing funding sources	**286,579**	**-**		**-**	218,528	-	-

Total funding sources	$	**1,143,258**	**0.47**		**2,691**	1,080,203	0.66	3,535
Net interest margin and net interest income on a taxable-equivalent basis (5)			**3.91 %**	**$**	**22,271**		4.03 %	$ 21,663
Noninterest-earning assets								
Cash and due from banks	$	**16,587**				17,367		
Goodwill		**25,230**				24,774		
Other		**127,177**				123,744		
Total noninterest-earning assets	$	**168,994**				165,885		
Noninterest-bearing funding sources								
Deposits	$	**250,528**				196,237		
Other liabilities		**57,821**				54,237		
Total equity		**147,224**				133,939		
Noninterest-bearing funding sources used to fund earning assets		**(286,579)**				(218,528)		
Net noninterest-bearing funding sources	$	**168,994**				165,885		
Total assets	$	**1,312,252**				1,246,088		

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Earnings Performance ***(continued)***

Noninterest Income

Table 2: Noninterest Income

(in millions)		Quarter ended June 30, 2012	2011	% Change		Six months ended June 30, 2012	2011	% Change
Service charges on deposit accounts	$	**1,139**	1,074	6%	$	**2,223**	2,086	7%
Trust and investment fees:								
Trust, investment and IRA fees		**1,041**	1,020	2		**2,065**	2,080	(1)
Commissions and all other fees		**1,857**	1,924	(3)		**3,672**	3,780	(3)
Total trust and investment fees		**2,898**	2,944	(2)		**5,737**	5,860	(2)
Card fees		**704**	1,003	(30)		**1,358**	1,960	(31)
Other fees:								
Cash network fees		**120**	94	28		**238**	175	36
Charges and fees on loans		**427**	404	6		**872**	801	9
Processing and all other fees		**587**	525	12		**1,119**	1,036	8
Total other fees		**1,134**	1,023	11		**2,229**	2,012	11
Mortgage banking:								
Servicing income, net		**679**	877	(23)		**931**	1,743	(47)
Net gains on mortgage loan origination/sales activities		**2,214**	742	198		**4,832**	1,892	155
Total mortgage banking		**2,893**	1,619	79		**5,763**	3,635	59
Insurance		**522**	568	(8)		**1,041**	1,071	(3)
Net gains from trading activities		**263**	414	(36)		**903**	1,026	(12)
Net losses on debt securities available for sale		**(61)**	(128)	(52)		**(68)**	(294)	(77)
Net gains from equity investments		**242**	724	(67)		**606**	1,077	(44)
Operating leases		**120**	103	17		**179**	180	(1)
All other		**398**	364	9		**1,029**	773	33
Total	$	**10,252**	9,708	6	$	**21,000**	19,386	8

Noninterest income was $10.3 billion and $9.7 billion for second quarter 2012 and 2011, respectively, and $21.0 billion and $19.4 billion for the first half of 2012 and 2011, respectively. Noninterest income represented 48% of revenue for the quarter and 49% for the first half of 2012. The increase in total noninterest income in the second quarter and first half of 2012 from the same periods a year ago was due predominantly to higher net gains on mortgage loan origination/sales activities.

Our service charges on deposit accounts increased 6% in the second quarter and 7% in the first half of 2012 from the same periods a year ago. This increase was predominantly due to product and account changes including changes to service charges and fewer fee waivers, continued customer adoption of overdraft services and customer account growth.

We earn trust, investment and IRA (Individual Retirement Account) fees from managing and administering assets, including mutual funds, corporate trust, personal trust, employee benefit trust and agency assets. At June 30, 2012, these assets totaled $2.2 trillion, up 1% from a year ago. Trust, investment and IRA fees are largely based on a tiered scale relative to the market value of the assets under management or administration. These fees were $1.0 billion and $2.1 billion in the second quarter and first half of 2012, respectively, essentially flat from a year ago for both periods.

We receive commissions and other fees for providing services to full-service and discount brokerage customers as well as from investment banking activities including equity and bond underwriting. These fees were $1.9 billion and $3.7 billion in the second quarter and first half of 2012, respectively, down 3%

from a year ago for both periods. Commissions and other fees include transactional commissions, which are based on the number of transactions executed at the customer s direction, and asset-based fees, which are based on the market value of the customer s assets. Brokerage client assets totaled $1.2 trillion at June 30, 2012, a 2% decrease from a year ago.

Card fees decreased to $704 million in second quarter 2012, from $1.0 billion in second quarter 2011. For the first six months of 2012, these fees decreased to $1.4 billion from $2.0 billion a year ago. Card fees decreased because of lower debit card interchange rates resulting from the final FRB rules implementing the Durbin Amendment to the Dodd-Frank Act, which became effective in fourth quarter 2011 and placed limits on debit card interchange rates. The reduction in debit card interchange rates was partially offset by growth in purchase volume and new accounts.

Mortgage banking noninterest income, consisting of net servicing income and net gains on loan origination/sales activities, totaled $2.9 billion in second quarter 2012, compared with $1.6 billion a year ago and totaled $5.8 billion for the first half of 2012 compared with $3.6 billion for the same period a year ago. The increase year over year in mortgage banking noninterest income was predominantly driven by an increase in net gains on mortgage loan origination/sales activities.

Net mortgage loan servicing income includes amortization of commercial mortgage servicing rights (MSRs), changes in the fair value of residential MSRs during the period as well as changes in the value of derivatives (economic hedges) used to hedge the residential MSRs. Net servicing income for second quarter 2012 included a $377 million net MSR valuation gain ($1.63 billion decrease in the fair value of the MSRs offset by a $2.01 billion hedge gain) and for second quarter 2011 included a $374 million net MSR valuation gain ($1.08 billion decrease in the fair value of MSRs offset by a $1.45 billion hedge gain). For the first half of 2012, net servicing income included a $319 million net MSR valuation gain ($1.79 billion decrease in the fair value of MSRs offset by a $2.11 billion hedge gain) and for the same period of 2011, included a $753 million net MSR valuation gain ($576 million decrease in the fair value of MSRs offset by a $1.33 billion hedge gain). The $434 million decline in net MSR valuation gain results for the first half of 2012 compared with the same period last year was primarily due to a reduction in the fair value of our residential MSRs to include a discount rate increase reflecting increased capital return requirements from market participants. The valuation of our MSRs at the end of second quarter 2012 and 2011 reflected our assessment of expected future amounts of servicing and foreclosure costs. Our portfolio of loans serviced for others was $1.91 trillion at June 30, 2012, and $1.85 trillion at December 31, 2011. At June 30, 2012, the ratio of MSRs to related loans serviced for others was 0.69%, compared with 0.76% at December 31, 2011. See the Risk Management Mortgage Banking Interest Rate and Market Risk section of this Report for additional information regarding our MSRs risks and hedging approach and the Risk Management Credit Risk Management Risks Relating to Servicing Activities section in this Report for information on the regulatory consent orders that we entered into relating to our mortgages servicing and foreclosure practices.

Income from mortgage loan origination/sale activities was $2.2 billion and $4.8 billion in the second quarter and first half of 2012, respectively, up from $742 million and $1.9 billion for the same periods a year ago. The year over year increases were driven by higher loan origination volume and margins. Residential real estate originations were $131 billion in second quarter 2012 compared with $64 billion a year ago and mortgage applications were $208 billion in second quarter 2012 compared with $109 billion a year ago. The 1-4 family first mortgage unclosed pipeline was $102 billion at June 30, 2012, and $51 billion a year ago. For additional information about our mortgage banking activities and results, see the Risk Management Mortgage Banking Interest Rate and Market Risk section and Note 8 (Mortgage Banking Activities) and Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

Net gains on mortgage loan origination/sales activities include the cost of any additions to the mortgage repurchase liability. Mortgage loans are repurchased from third parties based on standard representations and warranties, and early payment default clauses in mortgage sale contracts. Additions to the mortgage repurchase liability that were charged against net gains on mortgage loan origination/sales activities during second quarter 2012 totaled $669 million (compared with $242 million for second quarter 2011), of which $597 million ($222 million for second quarter 2011) was for subsequent increases in estimated losses on prior period loan sales. Additions to the mortgage repurchase liability for the six months ended June 30, 2012, and 2011 were $1.1 billion and $491

million, respectively, of which $965 million and $436 million, respectively, were for subsequent increases in estimated losses on prior period loan sales. For additional information about mortgage loan repurchases, see the Risk Management Credit Risk Management Liability for Mortgage Loan Repurchase Losses section and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

Net gains (losses) from trading activities, which reflect unrealized changes in fair value of our trading positions and realized gains and losses, were $263 million and $903 million in the second quarter and first half of 2012, respectively, compared with $414 million and $1.0 billion for the same periods a year ago. The year-over-year decrease for the second quarter and first half of 2012 was driven by lower gains on deferred compensation plan investments and economic hedging losses. Net gains (losses) from trading activities do not include interest income and other fees earned from related activities. Those amounts are reported within interest income from trading assets and other noninterest income, respectively, in the income statement. Net gains (losses) from trading activities are primarily from trading conducted on behalf of or driven by the needs of our customers (customer accommodation trading) and also include the results of certain economic hedging and proprietary trading activity. Proprietary trading had $1 million of net losses in the second quarter and $14 million of net gains in the first half of 2012, compared with net losses of $23 million and $9 million, respectively, for the same periods a year ago. Proprietary trading results also included interest and fees reported in their corresponding income statement line items. Proprietary trading activities are not significant to our client-focused business model. Our trading activities, customer accommodation, economic hedging and proprietary trading are further discussed in the Asset/Liability Management Market Risk Trading Activities section in this Report.

Net gains on debt and equity securities totaled $181 million for second quarter 2012 and $596 million for second quarter 2011 ($538 million and $783 million for the first half of 2012 and 2011, respectively), after other-than-temporary impairment (OTTI) write-downs of $120 million and $205 million for second quarter 2012 and 2011, respectively, and $185 million and $326 million for the first half of 2012 and 2011, respectively.

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Earnings Performance *(continued)*

Noninterest Expense

Table 3: Noninterest Expense

(in millions)	Quarter ended June 30, 2012	2011	% Change	Six months ended June 30, 2012	2011	% Change
Salaries	$ **3,705**	3,584	3%	$ **7,306**	7,038	4%
Commission and incentive compensation	**2,354**	2,171	8	**4,771**	4,518	6
Employee benefits	**1,049**	1,164	(10)	**2,657**	2,556	4
Equipment	**459**	528	(13)	**1,016**	1,160	(12)
Net occupancy	**698**	749	(7)	**1,402**	1,501	(7)
Core deposit and other intangibles	**418**	464	(10)	**837**	947	(12)
FDIC and other deposit assessments	**333**	315	6	**690**	620	11
Outside professional services	**658**	659	-	**1,252**	1,239	1
Contract services	**236**	341	(31)	**539**	710	(24)
Foreclosed assets	**289**	305	(5)	**593**	713	(17)
Operating losses	**524**	428	22	**1,001**	900	11
Postage, stationery and supplies	**195**	236	(17)	**411**	471	(13)
Outside data processing	**233**	232	-	**449**	452	(1)
Travel and entertainment	**218**	205	6	**420**	411	2
Advertising and promotion	**144**	166	(13)	**266**	282	(6)
Telecommunications	**127**	132	(4)	**251**	266	(6)
Insurance	**183**	201	(9)	**340**	334	2
Operating leases	**27**	31	(13)	**55**	55	-
All other	**547**	564	(3)	**1,134**	1,035	10
Total	$ **12,397**	12,475	(1)	$ **25,390**	25,208	1

Noninterest expense was $12.4 billion in second quarter 2012, down 1% from $12.5 billion a year ago, predominantly due to lower merger costs in 2012 with the completion of Wachovia merger integration activities in first quarter 2012 ($484 million in second quarter 2011), partially offset by higher personnel expenses ($7.1 billion, up from $6.9 billion a year ago) and higher operating losses ($524 million, up from $428 million a year ago). For the first half of 2012, noninterest expense was up 1% from the same period a year ago.

Personnel expenses were up $189 million or 3% in second quarter 2012 compared with the same quarter last year, largely due to higher revenues generated by businesses with revenue-based compensation, such as mortgage, and severance expense related to our expense initiative. Included in personnel expense was a $115 million decline in employee benefits due primarily to lower deferred compensation expense which was offset in trading income. Personnel expenses were up $622 million, or 4%, for the first half of 2012 compared with the same period in 2011, mostly due to higher revenue-based compensation, higher severance costs, and annual salary increases and related salary taxes.

Operating losses were up 22% in second quarter 2012 compared with the same quarter last year predominantly due to additional litigation accruals, including additional accruals for our settlement with the U.S. Department of Justice (DOJ) announced on July 12, 2012, which resolved alleged claims related to our mortgage lending practices. See Risk Management Credit Risk Management Other Mortgage Matters and Note 11 (Legal Actions) to Financial Statements in this Report for additional information regarding matters related to the DOJ settlement.

The completion of Wachovia integration activities in first quarter 2012 significantly contributed to year-over-year reductions, for both the second quarter and first half of 2012, in equipment, occupancy, contract services, postage, stationery and supplies, and advertising and promotion expenses. We also have made significant progress on our expense management initiatives as evidenced by the year-over-year $903 million increase in revenues and $78 million decrease in noninterest expense. We have achieved a number of expense reduction accomplishments since fourth quarter 2010. For example, we reduced full-time equivalent (FTE) employees by 3% and net occupancy expense declined 7% as a result of significant reduction in real estate holdings. We lowered our third party expenditures through renegotiated contracts and optimization of procurement practices. We reduced organizational complexity, streamlining the number of our legal entities and satellite data centers, both by 13%.

We remain focused on continuing our expense management efforts. At the same time, our efforts are not intended to adversely affect revenue, and we have not foregone attractive revenue opportunities, such as recently completed business and loan portfolio acquisitions, in order to meet specific noninterest expense targets.

Income Tax Expense

Our effective tax rate was 33.9% in second quarter 2012, up from 33.6% in second quarter 2011. Our effective tax rate was 34.6% in the first half of 2012, up from 31.7% in the first half of 2011. The lower tax rate in 2011 reflects a tax benefit from the realization for tax purposes of a previously written down investment as well as tax benefits related to charitable donations of appreciated securities.

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Operating Segment Results

We are organized for management reporting purposes into three operating segments: Community Banking; Wholesale Banking; and Wealth, Brokerage and Retirement. These segments are defined by product type and customer segment and their results are based on our management accounting process, for which there is no comprehensive, authoritative financial accounting guidance equivalent to generally accepted accounting principles

(GAAP). In first quarter 2012, we modified internal funds transfer rates and the allocation of funding. The prior periods have been revised to reflect these changes. Table 4 and the following discussion present our results by operating segment. For a more complete description of our operating segments, including additional financial information and the underlying management accounting process, see Note 18 (Operating Segments) to Financial Statements in this Report.

Table 4: Operating Segment Results Highlights

		Community Banking		Wholesale Banking		Wealth, Brokerage and Retirement	
(in billions)		**2012**	2011	**2012**	2011	**2012**	2011
Quarter ended June 30,							
Revenue	$	**13.1**	12.6	**6.1**	5.6	**3.0**	3.1
Net income		**2.5**	2.1	**1.9**	1.9	**0.3**	0.3
Average loans		**483.9**	497.0	**270.2**	242.9	**42.5**	43.5
Average core deposits		**586.1**	552.0	**220.9**	190.6	**134.2**	125.9
Six months ended June 30,							
Revenue	$	**26.5**	25.3	**12.2**	11.0	**6.0**	6.2
Net income		**4.9**	4.3	**3.7**	3.5	**0.6**	0.7
Average loans		**485.0**	502.7	**269.4**	238.8	**42.5**	43.1
Average core deposits		**580.7**	550.0	**220.9**	187.7	**134.9**	125.7

Community Banking offers a complete line of diversified financial products and services for consumers and small businesses including investment, insurance and trust services in 39 states and D.C., and mortgage and home equity loans in all 50 states and D.C. through its Regional Banking and Wells Fargo Home Mortgage business units.

Community Banking had net income of $2.5 billion, up $415 million, or 20%, from second quarter 2011, and $4.9 billion for the first half of 2012, up $583 million, or 14%, compared with the same period a year ago. Revenue of $13.1 billion increased $487 million, or 4%, from second quarter 2011 and was $26.5 billion for the first half of 2012, an increase of $1.3 billion, or 5%, compared with the same period a year ago. Revenue increased in both periods as a result of higher volume-related mortgage banking income and deposit growth, with the increase partially offset by outsized equity gains in the prior year second quarter, planned runoff of non-strategic loan balances and lower debit card revenue due to regulatory changes enacted in October 2011. Noninterest income increased $1.6 billion, or 15%, for the first half of 2012 compared with the same period a year ago, mostly due to higher volume-related mortgage banking income. Average core deposits increased $34.1 billion, or 6%, from second quarter 2011 and $30.7 billion, or 6%, from the first half of 2011. The number of consumer checking accounts grew 1.0% from May 2011 to May 2012. Noninterest expense in second quarter and for the first half of 2012 increased 2%, primarily from higher mortgage volume-related expenses and increased severance expense associated with our efficiency and cost save initiatives. The provision for credit losses decreased $343 million from second quarter 2011 and $526 million from the first half of 2011 due to a decrease in net charge-offs, offset in part by a lower allowance release. We released $725 million of allowance in the first half of 2012, compared with $1.6 billion released in the same period a year ago.

Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of $20 million. Products and business segments include Middle Market Commercial Banking, Government and Institutional Banking, Corporate Banking, Commercial Real Estate, Treasury Management, Wells Fargo Capital Finance, Insurance, International, Real Estate Capital Markets, Commercial Mortgage Servicing, Corporate Trust, Equipment Finance, Wells Fargo Securities, Principal Investments, Asset Backed Finance, and Asset Management.

Wholesale Banking had net income of $1.9 billion in second quarter 2012, down $32 million, or 2%, from second quarter 2011. Net income increased to $3.7 billion for the first half of 2012 from $3.5 billion a year ago. Results for the first six months of 2012 benefited from strong revenue growth partially offset by increased noninterest expense and a higher provision for loan losses. Revenue in second quarter 2012 increased $522 million, or 9%, from second quarter 2011 and revenue in the first half of 2012 increased $1.1 billion, or 10%, from the first half of 2011 driven by broad-based business growth, primarily from acquisitions and strong loan and deposit growth. Average loans of $270.2 billion in second quarter 2012 increased 11% from second quarter 2011 driven by acquisitions and strong borrowing demand across all customer segments, with most lending areas experiencing double-digit rates of growth in loans outstanding, including in asset backed finance, capital finance, commercial banking, commercial real estate, corporate banking, international, and real estate capital markets. Average core deposits of $220.9 billion in second quarter 2012 increased 16% from second quarter 2011, reflecting continued strong customer

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Earnings Performance ***(continued)***

liquidity. Noninterest expense in second quarter and for the first half of 2012 increased 13% and 11%, respectively, from the comparable periods last year, because of higher personnel expenses and higher operating losses. Despite an improvement of $40 million in net charge-offs, the provision for credit losses rose $285 million from second quarter 2011. The provision included a $25 million loan loss allowance build, compared with a $300 million loan loss allowance release a year ago.

Wealth, Brokerage and Retirement provides a full range of financial advisory services to clients using a planning approach to meet each client s needs. Wealth Management provides affluent and high net worth clients with a complete range of wealth management solutions, including financial planning, private banking, credit, investment management and trust. Abbot Downing (formerly branded as Lowry Hill and Wells Fargo Family Wealth) meets the unique needs of ultra high net worth clients. Brokerage serves customers advisory, brokerage and financial needs as part of one of the largest full-service brokerage firms in the United States. Retirement is a national leader in providing institutional retirement and trust services (including 401(k) and pension plan record keeping) for businesses, retail retirement solutions for individuals, and reinsurance services for the life insurance industry.

Wealth, Brokerage and Retirement had net income of $343 million in second quarter 2012, up $6 million, or 2%, from second quarter 2011. Net income for the first half of 2012 was $639 million, down $41 million, or 6%, compared with the same period a year ago. The prior year results include the H.D. Vest Financial Services business that we divested in fourth quarter 2011. Revenue was down 4% from second quarter 2011, due to lower brokerage transaction revenue, reduced securities gains in the brokerage business and market impact on deferred compensation plan investments (offset in noninterest expense), partially offset by growth in managed account fee revenue. Revenue was down 3% from the first six months of 2011 due to lower brokerage transaction revenue and reduced securities gains in the brokerage business, partially offset by growth in managed account fee revenue. Total provision for credit losses decreased $25 million from second quarter 2011 and $22 million compared with the first half of 2011. Noninterest expense was down 4% from second quarter 2011, driven by a decline in personnel costs largely due to decreased broker commissions from lower production levels, and lower deferred compensation plan expense. Noninterest expense was down 2% for the first half of 2012, driven by a decline in personnel costs largely due to decreased broker commissions from lower production levels.

Balance Sheet Analysis

At June 30, 2012, our total assets, core deposits and total loans were up from December 31, 2011. Core deposits totaled 114% of the loan portfolio at June 30, 2012, and we have the capacity to add higher yielding earning assets to generate future revenue and earnings growth. The strength of our business model produced record earnings and continued internal capital generation as reflected in our improved capital ratios. Tier 1 capital as a percentage of total risk-weighted assets increased to 11.69%, total capital increased to 14.85%, Tier 1 leverage increased to 9.25%, and Tier 1 common equity increased to

10.08% at June 30, 2012, up from 11.33%, 14.76%, 9.03%, and 9.46%, respectively, at December 31, 2011. For additional information about our capital, see Note 20 (Regulatory and Agency Capital Requirements) to Financial Statements in this Report.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and changes in our asset mix is included in the Earnings Performance Net Interest Income and Capital Management sections of this Report.

Securities Available for Sale

Table 5: Securities Available for Sale Summary

	June 30, 2012			December 31, 2011		
(in millions)	Cost	Net unrealized gain	Fair value	Cost	Net unrealized gain	Fair value
Debt securities available for sale	$ 214,870	9,129	223,999	212,642	6,554	219,196
Marketable equity securities	2,478	369	2,847	2,929	488	3,417
Total securities available for sale	$ 217,348	9,498	226,846	215,571	7,042	222,613

Table 5 presents a summary of our securities available-for-sale portfolio, which consists of both debt and marketable equity securities. We hold debt securities available for sale primarily for liquidity, interest rate risk management and long-term yield enhancement. Accordingly, this portfolio consists primarily of liquid, high quality federal agency debt and privately issued mortgage-backed securities (MBS). The total net unrealized gains on securities available for sale were $9.5 billion at June 30,

2012, up from net unrealized gains of $7.0 billion at December 31, 2011, due to a decline in long-term yields and tightening of credit spreads.

We analyze securities for OTTI quarterly or more often if a potential loss-triggering event occurs. Of the $185 million OTTI write-downs recognized in the first half of 2012, $127 million related to debt securities. There was $6 million in OTTI write-downs for marketable equity securities and $52 million in OTTI

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write-downs related to nonmarketable equity securities. For a discussion of our OTTI accounting policies and underlying considerations and analysis see Note 1 (Summary of Significant Accounting Policies   Securities) in our 2011 Form 10-K and Note 4 (Securities Available for Sale) to Financial Statements in this Report.

At June 30, 2012, debt securities available for sale included $37.3 billion of municipal bonds, of which 80% were rated   A-   or better based on external and, in some cases internal, ratings. Additionally, some of the securities in our total municipal bond portfolio are guaranteed against loss by bond insurers. These guaranteed bonds are predominantly investment grade and were generally underwritten in accordance with our own investment standards prior to the determination to purchase, without relying on the bond insurer s guarantee in making the investment decision. Our municipal bond holdings are monitored as part of our ongoing impairment analysis of our securities available for sale.

The weighted-average expected maturity of debt securities available for sale was 5.2 years at June 30, 2012. Because 61% of this portfolio is MBS, the expected remaining maturity may differ from contractual maturity because borrowers generally have the right to prepay obligations before the underlying mortgages mature. The estimated effect of a 200 basis point increase or decrease in interest rates on the fair value and the expected remaining maturity of the MBS available for sale are shown in Table 6.

Table 6: Mortgage-Backed Securities

(in billions)	Fair value	Net unrealized gain (loss)	Expected remaining maturity (in years)
At June 30, 2012			
Actual	$ 137.5	6.8	3.7
Assuming a 200 basis point:			
Increase in interest rates	127.6	(3.1)	5.5
Decrease in interest rates	140.6	9.9	3.0

See Note 4 (Securities Available for Sale) to Financial Statements in this Report for securities available for sale by security type.

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Balance Sheet Analysis *(continued)*

Loan Portfolio

Total loans were $775.2 billion at June 30, 2012, up $5.6 billion from December 31, 2011. Table 7 provides a summary of total outstanding loans for our commercial and consumer loan portfolios. Excluding the runoff in the non-strategic/liquidating portfolios of $9.2 billion, loans in the core portfolio grew $14.8 billion in the first half of 2012. Included in our core loan growth was $6.9 billion of commercial loans ($5.4 billion commercial and industrial and $1.5 billion foreign) acquired during second quarter 2012 in connection with the acquisition of BNP Paribas North American energy lending business and WestLB s subscription finance loan portfolio and $858 million of commercial asset-based loans acquired with the acquisition of

Burdale Financial Holdings Limited (Burdale) and the portfolio of Burdale Capital Finance Inc. in first quarter 2012. Loan growth occurred across commercial and industrial, foreign, real estate 1-4 family first mortgage, consumer auto lending and private student lending. This growth was offset by a decline in commercial real estate and continued runoff in the home equity portfolio. Additional information on the non-strategic and liquidating loan portfolios is included in Table 11 in the Credit Risk Management section of this Report.

Table 7: Loan Portfolios Summary

	June 30, 2012			December 31, 2011		
(in millions)	**Core**	**Liquidating**	**Total**	Core	Liquidating	Total
Commercial	**$ 349,774**	**4,278**	**354,052**	339,755	5,695	345,450
Consumer	**322,297**	**98,850**	**421,147**	317,550	106,631	424,181
Total loans	**$ 672,071**	**103,128**	**775,199**	657,305	112,326	769,631

A discussion of the impact on net interest income and a comparative detail of average loan balances is included in Earnings Performance Net Interest Income and Table 1 earlier in this Report. Additional information on total loans outstanding by portfolio segment and class of financing receivable is included in the Credit Risk Management section in this Report. Period-end balances and other loan related information are in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Deposits

Deposits totaled $928.9 billion at June 30, 2012, compared with $920.1 billion at December 31, 2011. Table 8 provides additional information regarding deposits. Information regarding the impact of deposits on net interest income and a comparison of average deposit balances is provided in Earnings Performance Net Interest Income and Table 1 earlier in this Report. Total core deposits were $882.1 billion at June 30, 2012, up $9.5 billion from $872.6 billion at December 31, 2011.

Table 8: Deposits

(in millions)	June 30, 2012	% of total deposits	December 31, 2011	% of total deposits	% Change
Noninterest-bearing	**$ 253,997**	**28 %**	$ 243,961	26 %	4
Interest-bearing checking	**29,574**	**3**	37,027	4	(20)
Market rate and other savings	**496,034**	**53**	485,534	53	2
Savings certificates	**59,184**	**6**	63,617	7	(7)
Foreign deposits (1)	**43,348**	**5**	42,490	5	2
Core deposits	**882,137**	**95**	872,629	95	1
Other time and savings deposits	**21,788**	**2**	20,745	2	5
Other foreign deposits	**25,008**	**3**	26,696	3	(6)
Total deposits	**$ 928,933**	**100 %**	$ 920,070	100 %	1

(1) Reflects Eurodollar sweep balances included in core deposits.

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Fair Valuation of Financial Instruments

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. See our 2011 Form 10-K for a description of our critical accounting policy related to fair valuation of financial instruments.

We may use independent pricing services and brokers (collectively, pricing vendors) to obtain fair values (vendor prices) which are used to either record the price of an instrument or to corroborate internally developed prices. For certain securities, we may use internal traders to price instruments. Where vendor prices are utilized for recording the price of an instrument, we determine the most appropriate and relevant pricing vendor for each security class and obtain a price from that particular pricing vendor for each security.

Determination of the fair value of financial instruments using either vendor prices or internally developed prices are both subject to our internal price validation procedures, which include, but are not limited to, one or a combination of the following procedures:

- comparison to pricing vendors (for internally developed prices) or to other pricing vendors (for vendor developed prices);
- variance analysis of prices;
- corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices;
- review of pricing by Company personnel familiar with market liquidity and other market-related conditions; and
- investigation of prices on a specific instrument-by-instrument basis.

For instruments where we use vendor prices to record the price of an instrument, we perform additional procedures. We evaluate pricing vendors by comparing prices from one vendor to prices of other vendors for identical or similar instruments and evaluate the consistency of prices to known market

transactions when determining the level of reliance to be placed on a particular pricing vendor. Methodologies employed and inputs used by third party pricing vendors are subject to additional review when such services are provided. This review may consist of, in part, obtaining and evaluating control reports issued and pricing methodology materials distributed.

Table 9 presents the summary of the fair value of financial instruments recorded at fair value on a recurring basis, and the amounts measured using significant Level 3 inputs (before derivative netting adjustments). The fair value of the remaining assets and liabilities were measured using valuation methodologies involving market-based or market-derived information (collectively Level 1 and 2 measurements).

Table 9: Fair Value Level 3 Summary

		June 30, 2012		December 31, 2011
($ in billions)	Total balance	Level 3 (1)	Total balance	Level 3 (1)
Assets carried at fair value	$ 363.8	50.0	373.0	53.3
As a percentage of total assets	27 %	4	28	4
Liabilities carried at fair value	$ 27.3	4.3	26.4	4.6
As a percentage of total liabilities	2 %	*	2	*

* Less than 1%.
(1) Before derivative netting adjustments.

See Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report for additional information regarding our use of fair valuation of financial instruments, our related measurement techniques and the impact to our financial statements.

Off-Balance Sheet Arrangements

In the ordinary course of business, we engage in financial transactions that are not recorded in the balance sheet, or may be recorded in the balance sheet in amounts that are different from the full contract or notional amount of the transaction. These transactions are designed to (1) meet the financial needs of customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources, and/or (4) optimize capital.

Off-Balance Sheet Transactions with Unconsolidated Entities

We routinely enter into various types of on- and off-balance sheet transactions with special purpose entities (SPEs), which are corporations, trusts or partnerships that are established for a limited purpose. Historically, the majority of SPEs were formed in connection with securitization transactions. For more information on securitizations, including sales proceeds and cash flows from securitizations, see Note 7 (Securitizations and Variable Interest Entities) to Financial Statements in this Report.

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Risk Management

All financial institutions must manage and control a variety of business risks that can significantly affect their financial performance. Key among those are credit, asset/liability and market risk.

For more information about how we manage these risks, see the Risk Management section in our 2011 Form 10-K. The discussion that follows provides an update regarding these risks.

Credit Risk Management

Loans represent the largest component of our balance sheet and their related credit risk is among the most significant risks we manage. We define credit risk as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Table 10 presents our total loans outstanding by portfolio segment and class of financing receivable.

Table 10: Total Loans Outstanding by Portfolio Segment and Class of Financing Receivable

(in millions)		**June 30, 2012**	Dec. 31, 2011
Commercial:			
Commercial and industrial	**$**	**177,646**	167,216
Real estate mortgage		**105,666**	105,975
Real estate construction		**17,594**	19,382
Lease financing		**12,729**	13,117
Foreign (1)		**40,417**	39,760
Total commercial		**354,052**	345,450
Consumer:			
Real estate 1-4 family first mortgage		**230,263**	228,894
Real estate 1-4 family junior lien mortgage		**80,881**	85,991
Credit card		**22,706**	22,836
Other revolving credit and installment		**87,297**	86,460
Total consumer		**421,147**	424,181
Total loans	**$**	**775,199**	769,631

(1) Substantially all of our foreign loan portfolio is commercial loans. Loans are classified as foreign if the borrower s primary address is outside of the United States.

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Non-Strategic and Liquidating Loan Portfolios We continually evaluate and modify our credit policies to address appropriate levels of risk. We may designate certain portfolios and loan products as non-strategic or liquidating to cease their continued origination as we actively work to limit losses and reduce our exposures.

Table 11 identifies our non-strategic and liquidating loan portfolios. They consist primarily of the Pick-a-Pay mortgage portfolio and other PCI loans acquired from Wachovia, some portfolios from legacy Wells Fargo Home Equity and Wells Fargo Financial, and our education finance government guaranteed loan portfolio. The total of outstanding balances of

our non-strategic and liquidating loan portfolios has decreased 46% since the merger with Wachovia at December 31, 2008, and decreased 8% from the end of 2011.

The home equity portfolio of loans generated through third party channels was designated as liquidating in fourth quarter 2007. Additional information regarding this portfolio is included in the Credit Risk Management Home Equity Portfolios section of this Report.

Information about the liquidating PCI and Pick-a-Pay loan portfolios is provided in the discussion of loan portfolios that follows.

Table 11: Non-Strategic and Liquidating Loan Portfolios

					Outstanding balance	
(in millions)		**June 30, 2012**	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Commercial:						
Legacy Wachovia commercial and industrial, CRE and foreign PCI loans (1)	$	**4,278**	5,695	7,935	12,988	18,704
Total commercial		**4,278**	5,695	7,935	12,988	18,704
Consumer:						
Pick-a-Pay mortgage (1)		**62,045**	65,652	74,815	85,238	95,315
Liquidating home equity		**5,199**	5,710	6,904	8,429	10,309
Legacy Wells Fargo Financial indirect auto		**1,454**	2,455	6,002	11,253	18,221
Legacy Wells Fargo Financial debt consolidation		**15,511**	16,542	19,020	22,364	25,299
Education Finance - government guaranteed		**13,823**	15,376	17,510	21,150	20,465
Legacy Wachovia other PCI loans (1)		**818**	896	1,118	1,688	2,478
Total consumer		**98,850**	106,631	125,369	150,122	172,087
Total non-strategic and liquidating loan portfolios	$	**103,128**	112,326	133,304	163,110	190,791

(1) Net of purchase accounting adjustments related to PCI loans.

PURCHASED CREDIT-IMPAIRED (PCI) LOANS Loans acquired with evidence of credit deterioration since their origination and where it is probable that we will not collect all contractually required principal and interest payments are accounted for using the measurement provisions for PCI loans. PCI loans are recorded at fair value at the date of acquisition, and the historical allowance for credit losses related to these loans is not carried over. Such loans are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments. Substantially all of our PCI loans were acquired in the Wachovia acquisition on December 31, 2008. For additional information on PCI loans, see the Risk Management Credit Risk Management Purchased Credit-Impaired Loans section in our 2011 Form 10-K.

During the first half of 2012, we recognized as income $52 million released from the nonaccretable difference related to commercial PCI loans due to payoffs and other resolutions. We also transferred $319 million from the nonaccretable difference to the accretable yield for PCI loans with improving credit-related cash flows and absorbed $1.1 billion of losses in the nonaccretable difference from loan resolutions and write-downs. Table 12 provides an analysis of changes in the nonaccretable difference.

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Risk Management Credit Risk Management *(continued)*

Table 12: Changes in Nonaccretable Difference for PCI Loans

(in millions)		Commercial	Pick-a-Pay	Other consumer	Total
Balance, December 31, 2008	$	10,410	26,485	4,069	40,964
Addition of nonaccretable difference due to acquisitions		188	-	-	188
Release of nonaccretable difference due to:					
Loans resolved by settlement with borrower (1)		(1,345)	-	-	(1,345)
Loans resolved by sales to third parties (2)		(299)	-	(85)	(384)
Reclassification to accretable yield for loans with improving credit-related cash flows (3)		(1,216)	(2,383)	(614)	(4,213)
Use of nonaccretable difference due to:					
Losses from loan resolutions and write-downs (4)		(6,809)	(14,976)	(2,718)	(24,503)
Balance, December 31, 2011		**929**	**9,126**	**652**	**10,707**
Addition of nonaccretable difference due to acquisitions		**-**	**-**	**-**	**-**
Release of nonaccretable difference due to:					
Loans resolved by settlement with borrower (1)		**(52)**	**-**	**-**	**(52)**
Loans resolved by sales to third parties (2)		**-**	**-**	**-**	**-**
Reclassification to accretable yield for loans with improving credit-related cash flows (3)		**(147)**	**(45)**	**(127)**	**(319)**
Use of nonaccretable difference due to:					
Losses from loan resolutions and write-downs (4)		**(72)**	**(953)**	**(85)**	**(1,110)**
Balance, June 30, 2012	**$**	**658**	**8,128**	**440**	**9,226**
Balance, March 31, 2012	**$**	**748**	**8,621**	**506**	**9,875**
Addition of nonaccretable difference due to acquisitions		**-**	**-**	**-**	**-**
Release of nonaccretable difference due to:					
Loans resolved by settlement with borrower (1)		**(24)**	**-**	**-**	**(24)**
Loans resolved by sales to third parties (2)		**-**	**-**	**-**	**-**
Reclassification to accretable yield for loans with improving credit-related cash flows (3)		**(39)**	**(45)**	**-**	**(84)**
Use of nonaccretable difference due to:					
Losses from loan resolutions and write-downs (4)		**(27)**	**(448)**	**(66)**	**(541)**
Balance, June 30, 2012	**$**	**658**	**8,128**	**440**	**9,226**

(1) Release of the nonaccretable difference for settlement with borrower, on individually accounted PCI loans, increases interest income in the period of settlement. Pick-a-Pay and Other consumer PCI loans do not reflect nonaccretable difference releases for settlements with borrowers due to pool accounting for those loans, which assumes that the amount received approximates the pool performance expectations.

(2) Release of the nonaccretable difference as a result of sales to third parties increases noninterest income in the period of the sale.

(3) Reclassification of nonaccretable difference to accretable yield for loans with increased cash flow estimates will result in increased interest income as a prospective yield adjustment over the remaining life of the loan or pool of loans.

(4) Write-downs to net realizable value of PCI loans are absorbed by the nonaccretable difference when severe delinquency (normally 180 days) or other indications of severe borrower financial stress exist that indicate there will be a loss of contractually due amounts upon final resolution of the loan.

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Since December 31, 2008, we have released $6.3 billion in nonaccretable difference, including $4.5 billion transferred from the nonaccretable difference to the accretable yield and $1.8 billion released to income through loan resolutions. Also, we have provided $1.8 billion for losses on certain PCI loans or pools of PCI loans that have had credit-related decreases to cash flows expected to be collected. The net result is a $4.5 billion reduction from December 31, 2008, through June 30, 2012, in our initial projected losses on all PCI loans.

At June 30, 2012, the allowance for credit losses on certain PCI loans was $212 million. The allowance is necessary to absorb credit-related decreases in cash flows expected to be collected and primarily relates to individual PCI loans. Table 13 analyzes the actual and projected loss results on PCI loans since acquisition through June 30, 2012.

For additional information on PCI loans, see Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 13: Actual and Projected Loss Results on PCI Loans

(in millions)	Commercial	Pick-a-Pay	Other consumer	Total
Release of nonaccretable difference due to:				
Loans resolved by settlement with borrower (1)	$ 1,397	-	-	1,397
Loans resolved by sales to third parties (2)	299	-	85	384
Reclassification to accretable yield for loans with improving credit-related cash flows (3)	1,363	2,428	741	4,532
Total releases of nonaccretable difference due to better than expected losses	3,059	2,428	826	6,313
Provision for losses due to credit deterioration (4)	(1,686)	-	(125)	(1,811)
Actual and projected losses on PCI loans less than originally expected	$ 1,373	2,428	701	4,502

(1) Release of the nonaccretable difference for settlement with borrower, on individually accounted PCI loans, increases interest income in the period of settlement. Pick-a-Pay and Other consumer PCI loans do not reflect nonaccretable difference releases for settlements with borrowers due to pool accounting for those loans, which assumes that the amount received approximates the pool performance expectations.
(2) Release of the nonaccretable difference as a result of sales to third parties increases noninterest income in the period of the sale.
(3) Reclassification of nonaccretable difference to accretable yield for loans with increased cash flow estimates will result in increased interest income as a prospective yield adjustment over the remaining life of the loan or pool of loans.
(4) Provision for additional losses is recorded as a charge to income when it is estimated that the cash flows expected to be collected for a PCI loan or pool of loans may not support full realization of the carrying value.

Significant Portfolio Reviews Measuring and monitoring our credit risk is an ongoing process that tracks delinquencies, collateral values, FICO scores, economic trends by geographic areas, loan-level risk grading for certain portfolios (typically commercial) and other indications of credit risk. Our credit risk monitoring process is designed to enable early identification of developing risk and to support our determination of an appropriate allowance for credit losses. The following discussion provides additional characteristics and analysis of our significant portfolios. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for more analysis and credit metric information.

COMMERCIAL AND INDUSTRIAL LOANS AND LEASE FINANCING For purposes of portfolio risk management, we aggregate commercial and industrial loans and lease financing according to market segmentation and standard industry codes. Table 14 summarizes commercial and industrial loans and lease financing by industry with the related nonaccrual totals. We generally subject commercial and industrial loans and lease financing to individual risk assessment using our internal borrower and collateral quality ratings. Our ratings are aligned to pass and criticized categories with our criticized categories aligned to special mention, substandard and doubtful categories as defined by bank regulatory agencies.

Across our non-PCI commercial loans and leases, the commercial and industrial loans and lease financing portfolio generally experienced credit improvement in second quarter 2012. Of the total commercial and industrial loans and lease financing non-PCI portfolio, 0.02% was 90 days or more past due and still accruing at June 30, 2012, compared with 0.09% at

December 31, 2011, 0.84% (1.22% at December 31, 2011) was nonaccruing and 10.7% (12.5% at December 31, 2011) was criticized. The net charge-off rate for this portfolio declined to 0.54% in second quarter 2012 from 0.58% for first quarter 2012 and 0.70% for the full year of 2011.

A majority of our commercial and industrial loans and lease financing portfolio is secured by short-term liquid assets, such as accounts receivable, inventory and securities, as well as long-lived assets, such as equipment and other business assets. Generally, the collateral securing this portfolio represents a secondary source of repayment. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for additional credit metric information.

During second quarter 2012, we acquired $6.9 billion of commercial loans in connection with our acquisition of BNP Paribas North American energy lending business and WestLB s subscription finance loan portfolio, which added an aggregate of $5.4 billion to the commercial and industrial loan portfolio. In first quarter 2012, we also added $858 million to this portfolio when we acquired commercial asset-based loans from the Bank of Ireland in the Burdale acquisition.

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Risk Management Credit Risk Management *(continued)*

Table 14: Commercial and Industrial Loans and Lease Financing by Industry

	June 30, 2012		
(in millions)	Nonaccrual loans	Outstanding balance (1)	% of total loans
PCI loans (1):			
Healthcare	$ -	44	* %
Technology	-	39	*
Aerospace and defense	-	39	*
Steel and metal products	-	17	*
Real estate lessor	-	17	*
Home furnishings	-	16	*
Other	-	72 (2)	*
Total PCI loans	$ -	244	* %
All other loans:			
Oil and gas	$ 57	13,115	2 %
Investors	2	12,335	2
Cyclical retailers	31	11,038	1
Financial institutions	96	11,031	1
Food and beverage	46	10,348	1
Industrial equipment	19	9,133	1
Healthcare	55	8,890	1
Securities firms	34	7,681	*
Real estate lessor	35	6,884	*
Technology	21	6,852	*
Transportation	10	6,500	*
Business services	33	5,901	*
Other	1,153	80,423 (3)	10
Total all other loans	$ 1,592	190,131	25 %
Total	$ 1,592	190,375	25 %

* Less than 1%.

(1) For PCI loans, amounts represent carrying value. PCI loans are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

(2) No other single category had loans in excess of $13.4 million.

(3) No other single category had loans in excess of $4.4 billion.

COMMERCIAL REAL ESTATE (CRE) The CRE portfolio, consisting of both CRE mortgage loans and CRE construction loans, totaled $123.3 billion, or 16%, of total loans at June 30, 2012. CRE construction loans totaled $17.6 billion at June 30, 2012, and CRE mortgage loans totaled $105.7 billion at June 30, 2012. Table 15 summarizes CRE loans by state and property type with the related nonaccrual totals. CRE nonaccrual loans totaled 4% of the non-PCI CRE outstanding balance at June 30, 2012. The portfolio is diversified both geographically and by property type. The largest geographic concentrations of combined CRE loans are in California and Florida, which represented 25% and 9% of the total CRE portfolio, respectively. By property type, the largest concentrations are office buildings at 26% and industrial/warehouse at 11% of the portfolio. At June 30, 2012, we had $20.5 billion of criticized non-PCI CRE mortgage loans, a decrease of 9% from December 31, 2011, and $5.3 billion of criticized non-PCI CRE construction loans, a decrease of 22% from December 31, 2011. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for additional information on criticized loans.

At June 30, 2012, the recorded investment in PCI CRE loans totaled $3.9 billion, down from $12.3 billion when they were acquired at December 31, 2008, reflecting the reduction resulting from principal payments, loan resolutions and write-downs.

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Table 15: CRE Loans by State and Property Type

	June 30, 2012						
	Real estate mortgage		Real estate construction		Total		% of
(in millions)	Nonaccrual loans	Outstanding balance (1)	Nonaccrual loans	Outstanding balance (1)	Nonaccrual loans	Outstanding balance (1)	total loans
By state:							
PCI loans (1):							
New York	$ -	509	-	164	-	673	*%
Florida	-	351	-	198	-	549	*
California	-	402	-	49	-	451	*
Texas	-	148	-	96	-	244	*
Pennsylvania	-	118	-	112	-	230	*
Other	-	1,094	-	677	-	1,771 (2)	*
Total PCI loans	$ -	2,622	-	1,296	-	3,918	*%
All other loans:							
California	$ 952	27,768	269	3,137	1,221	30,905	4 %
Florida	518	8,973	161	1,309	679	10,282	1
Texas	347	7,990	43	1,407	390	9,397	1
New York	34	5,665	4	966	38	6,631	*
North Carolina	266	4,144	154	1,006	420	5,150	*
Arizona	176	4,214	34	457	210	4,671	*
Virginia	88	2,965	33	1,213	121	4,178	*
Georgia	212	3,399	166	523	378	3,922	*
Washington	44	3,092	8	490	52	3,582	*
Colorado	81	2,905	19	393	100	3,298	*
Other	1,114	31,929	530	5,397	1,644	37,326 (3)	5
Total all other loans	$ 3,832	103,044	1,421	16,298	5,253	119,342	15 %
Total	$ 3,832	105,666	1,421	17,594	5,253	123,260	16 %
By property:							
PCI loans (1):							
Office buildings	$ -	966	-	123	-	1,089	*%
Apartments	-	582	-	184	-	766	*
Retail (excluding shopping center)	-	388	-	22	-	410	*
1-4 family land	-	2	-	342	-	344	*
Shopping center	-	207	-	136	-	343	*
Other	-	477	-	489	-	966	*
Total PCI loans	$ -	2,622	-	1,296	-	3,918	*%
All other loans:							
Office buildings	$ 910	29,279	98	1,559	1,008	30,838	4 %

Industrial/warehouse	530	12,700	26	391	556	13,091	2
Apartments	238	9,955	63	1,953	301	11,908	2
Retail (excluding shopping center)	587	11,078	48	294	635	11,372	1
Real estate - other	364	10,158	41	309	405	10,467	1
Shopping center	289	9,408	79	772	368	10,180	1
Hotel/motel	223	8,069	24	621	247	8,690	1
Land (excluding 1-4 family)	6	97	426	6,710	432	6,807	*
Institutional	111	2,864	-	247	111	3,111	*
Agriculture	175	2,556	4	19	179	2,575	*
Other	399	6,880	612	3,423	1,011	10,303	1
Total all other loans	$ 3,832	103,044	1,421	16,298	5,253	119,342	15 %
Total	$ 3,832	105,666	1,421	17,594	5,253	123,260	16 %

* Less than 1%.

(1) For PCI loans, amounts represent carrying value. PCI loans are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

(2) Includes 34 states; no state had loans in excess of $229 million.

(3) Includes 40 states; no state had loans in excess of $3.1 billion.

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Risk Management Credit Risk Management *(continued)*

FOREIGN LOANS AND EUROPEAN EXPOSURE We classify loans as foreign if the borrower s primary address is outside of the United States. At June 30, 2012, foreign loans represented approximately 5% of our total consolidated loans outstanding and approximately 3% of our total assets.

Our foreign country risk monitoring process incorporates frequent dialogue with our foreign financial institution customers, counterparties and with regulatory agencies, enhanced by centralized monitoring of macroeconomic and capital markets conditions. We establish exposure limits for each country through a centralized oversight process based on the needs of our customers, and in consideration of relevant economic, political, social, legal, and transfer risks. We monitor exposures closely and adjust our limits in response to changing conditions.

As per bank regulatory reporting requirements, we evaluate our individual country risk exposure on an ultimate risk basis which is normally based on the country of residence of the guarantor or collateral location. Our largest foreign country exposure on an ultimate risk basis was the United Kingdom, which amounted to approximately $12.5 billion, or 1% of our total assets, and included $1.7 billion of sovereign claims. Our United Kingdom sovereign claims arise primarily from deposits we have placed with the Bank of England pursuant to regulatory requirements in support of our London branch.

At June 30, 2012, our Eurozone exposure, including cross-border claims on an ultimate risk basis, and foreign exchange and derivative products, aggregated approximately $10.9 billion, including $352 million of sovereign claims, compared with approximately $11.4 billion at December 31, 2011, which included $364 million of sovereign claims. Our Eurozone exposure is relatively small compared to our overall credit risk exposure and is diverse by country, type, and counterparty.

We conduct periodic stress tests of our significant country risk exposures, analyzing the direct and indirect impacts on the risk of loss from various macroeconomic and capital markets scenarios. We do not have significant exposure to foreign country risks because our foreign portfolio is relatively small. However, we have identified exposure to increased loss from U.S. borrowers associated with the potential indirect impact of a European downturn on the U.S. economy. We mitigate these potential impacts through our normal risk management processes which include active monitoring and, if necessary, the application of aggressive loss mitigation strategies.

Table 16 provides information regarding our exposures to European sovereign entities and institutions located within such countries, including cross-border claims on an ultimate risk basis, and foreign exchange and derivative products.

Table 16: European Exposure

	Lending (1)(2)		Securities (3)		Derivatives and other (4)		Total exposure		
(in millions)	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign	Sovereign	Non-sovereign (5)	Total
June 30, 2012									
Eurozone									
Netherlands	$ -	2,394	-	249	-	535	-	3,178	3,178
Germany	59	1,848	-	241	-	202	59	2,291	2,350
Luxembourg	-	1,002	-	131	-	4	-	1,137	1,137
Ireland	100	784	-	187	-	20	100	991	1,091
France	73	489	-	374	-	30	73	893	966
Spain	-	682	-	94	-	16	-	792	792
Italy	-	371	-	105	-	1	-	477	477
Austria	100	238	-	6	-	-	100	244	344

Belgium	-	188	-	37	-	67	-	292	292
Other (6)	20	145	-	105	-	9	20	259	279
Total Eurozone exposure	352	8,141	-	1,529	-	884	352	10,554	10,906
United Kingdom	1,726	4,624	-	5,802	-	314	1,726	10,740	12,466
Other European countries	-	4,048	4	440	1	620	5	5,108	5,113
Total European exposure	$ 2,078	16,813	4	7,771	1	1,818	2,083	26,402	28,485

(1) Lending exposure includes funded loans and unfunded commitments, leveraged leases, and money market placements presented on a gross basis prior to the deduction of impairment allowance and collateral received under the terms of the credit agreements.

(2) Includes $1.4 billion in PCI loans, largely to customers in Germany and United Kingdom territories, and $2.9 billion in defeased leases secured predominantly by U.S. Treasury and government agency securities, or government guaranteed.

(3) Represents issuer exposure on cross-border debt and equity securities, held in trading or available-for-sale portfolio, at fair value.

(4) Represents counterparty exposure on foreign exchange and derivative contracts, and securities resale and lending agreements. This exposure is presented net of counterparty netting adjustments and reduced by the amount of cash collateral. It includes credit default swaps (CDS) predominantly used to manage our U.S. and London-based cash credit trading businesses, which sometimes results in selling and purchasing protection on the identical reference entity. Generally, we do not use market instruments such as CDS to hedge the credit risk of our investment or loan positions, although we do use them to manage risk in our trading businesses. At June 30, 2012, the gross notional amount of our CDS sold that reference assets domiciled in Europe was $8.4 billion, which was offset by the notional amount of CDS purchased of $8.4 billion. We did not have any CDS purchased or sold where the reference asset was solely the sovereign debt of a European country. Certain CDS purchased or sold reference pools of assets that contain sovereign debt, however the amount of referenced sovereign European debt was insignificant at June 30, 2012.

(5) Total non-sovereign exposure comprises $11.0 billion exposure to financial institutions and $15.4 billion to non-financial corporations at June 30, 2012.

(6) Includes non-sovereign exposure to Greece and Portugal in the amount of $3 million and $57 million, respectively. We had no sovereign debt exposure to these countries at June 30, 2012.

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REAL ESTATE 1-4 FAMILY FIRST AND JUNIOR LIEN MORTGAGE LOANS Our real estate 1-4 family first and junior lien mortgage loans primarily include loans we have made to customers and retained as part of our asset liability management strategy. These loans also include the Pick-a-Pay portfolio acquired from Wachovia and the home equity portfolio, which are discussed later in this Report. In addition, these loans include other purchased loans and loans included on our balance sheet due to the adoption of consolidation accounting guidance related to variable interest entities (VIEs).

Our underwriting and periodic review of loans collateralized by residential real property includes appraisals or estimates from automated valuation models (AVMs). Additional information about AVMs and our policy for their use can be found in the Risk Management Credit Risk Management Real Estate 1-4 Family Mortgage Loans section in our 2011 Form 10-K.

Some of our real estate 1-4 family first and junior lien mortgage loans include an interest-only feature as part of the loan terms. These interest-only loans were approximately 20% of total loans at June 30, 2012, compared with 21% at December 31, 2011.

We believe we have manageable adjustable-rate mortgage (ARM) reset risk across our owned mortgage loan portfolios. We do not offer option ARM products, nor do we offer variable-rate mortgage products with fixed payment amounts, commonly referred to within the financial services industry as negative amortizing mortgage loans. Our liquidating option ARM portfolio was acquired from Wachovia.

We continue to modify real estate 1-4 family mortgage loans to assist homeowners and other borrowers in the current difficult economic cycle. For more information on our participation in the U.S. Treasury s Making Home Affordable (MHA) programs, see the Risk Management Credit Risk Management Real Estate 1-4 Family Mortgage Loans section in our 2011 Form 10-K.

Real estate 1-4 family first and junior lien mortgage loans by state are presented in Table 17. Our real estate 1-4 family mortgage loans to borrowers in California represented approximately 13% of total loans (2% of this amount were PCI loans from Wachovia) at June 30, 2012, located mostly within the larger metropolitan areas, with no single California metropolitan area consisting of more than 3% of total loans. We monitor changes in real estate values and underlying economic or market conditions for all geographic areas of our real estate 1-4 family mortgage portfolio as part of our credit risk management process.

Part of our credit monitoring includes tracking delinquency, FICO scores and collateral values (LTV/CLTV) on the entire real estate 1-4 family mortgage loan portfolio. These metrics continued to improve in second quarter 2012 on the non-PCI mortgage portfolio. Loans 30 days or more delinquent at June 30, 2012, totaled $16.1 billion, or 6%, of total non-PCI mortgages, compared with $18.4 billion, or 6%, at December 31, 2011. Loans with FICO scores lower than 640 totaled $40.5 billion at June 30, 2012, or 14% of all non-PCI mortgages, compared with $44.1 billion, or 15%, at December 31, 2011. Mortgages with a LTV/CLTV greater than 100% totaled

$66.9 billion at June 30, 2012, or 24% of total non-PCI mortgages, compared with $74.2 billion, or 26%, at December 31, 2011. Information regarding credit risk trends can be found in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

We monitor the credit performance of our junior lien mortgage portfolio for trends and factors that influence the frequency and severity of loss. In first quarter 2012, in accordance with *Interagency Supervisory Guidance on Allowance for Loan and Lease Losses Estimation Practices for Loans and Lines of Credit Secured by Junior Liens on 1-4 Family Residential Properties* issued by bank regulators on January 31, 2012 (Interagency Guidance), we aligned our nonaccrual reporting so that a junior lien is reported as a nonaccrual loan if the related first lien is 120 days past due or is in the process of foreclosure. This action increased our nonperforming assets by $1.7 billion, but otherwise had minimal financial impact as the expected loss content of these loans was already considered in the allowance for loan losses. See the Risk Management Credit Risk Management Nonperforming Assets section in this report for more information.

Table 17: Real Estate 1-4 Family First and Junior Lien Mortgage Loans by State

				June 30, 2012
(in millions)	Real estate 1-4 family first mortgage	Real estate 1-4 family junior lien mortgage	Total real estate 1-4 family mortgage	% of total loans
PCI loans:				
California	$ 18,366	37	18,403	2 %

Florida	2,549	35	2,584	*
New Jersey	1,267	23	1,290	*
Other (1)	6,149	95	6,244	*
Total PCI loans	$ 28,331	190	28,521	4 %
All other loans:				
California	$ 56,821	22,562	79,383	10 %
Florida	15,633	7,215	22,848	3
New Jersey	8,990	5,946	14,936	2
New York	9,676	3,399	13,075	2
Virginia	5,828	4,192	10,020	1
Pennsylvania	5,669	3,709	9,378	1
North Carolina	5,623	3,388	9,011	1
Georgia	4,600	3,172	7,772	1
Texas	6,456	1,212	7,668	1
Other (2)	54,210	25,896	80,106	10
Government insured/guaranteed loans (3)	28,426	-	28,426	4
Total all other loans	$ 201,932	80,691	282,623	36 %
Total	$ 230,263	80,881	311,144	40 %

* Less than 1%.
(1) Consists of 45 states; no state had loans in excess of $715 million.
(2) Consists of 41 states; no state had loans in excess of $6.5 billion.
(3) Represents loans whose repayments are insured by the FHA or guaranteed by the VA.

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Risk Management Credit Risk Management *(continued)*

Pick-a-Pay Portfolio The Pick-a-Pay portfolio was one of the consumer residential first mortgage portfolios we acquired from Wachovia and a majority of the portfolio was identified as PCI loans.

The Pick-a-Pay portfolio includes loans that offer payment options (Pick-a-Pay option payment loans), and also includes loans that were originated without the option payment feature, loans that no longer offer the option feature as a result of our modification efforts since the acquisition, and loans where the customer voluntarily converted to a fixed-rate product. The Pick-

a-Pay portfolio is included in the consumer real estate 1-4 family first mortgage class of loans throughout this Report. Real estate 1-4 family junior lien mortgages and lines of credit associated with Pick-a-Pay loans are reported in the home equity portfolio. Table 18 provides balances by types of loans as of June 30, 2012, as a result of modification efforts, compared to the types of loans included in the portfolio at December 31, 2011, and at acquisition.

Table 18: Pick-a-Pay Portfolio - Comparison to Acquisition Date

				December 31,		
	June 30, 2012			2011		2008
(in millions)	**Adjusted unpaid principal balance (1)**	**% of total**	Adjusted unpaid principal balance (1)	% of total	Adjusted unpaid principal balance (1)	% of total
Option payment loans	**$ 35,353**	**51 %**	$ 39,164	53 %	$ 99,937	86 %
Non-option payment adjustable-rate and fixed-rate loans	**9,315**	**14**	9,986	14	15,763	14
Full-term loan modifications	**24,184**	**35**	24,207	33	-	-
Total adjusted unpaid principal balance	**$ 68,852**	**100 %**	$ 73,357	100 %	$ 115,700	100 %
Total carrying value	**$ 62,045**		65,652		95,315	

(1) Adjusted unpaid principal balance includes write-downs taken on loans where severe delinquency (normally 180 days) or other indications of severe borrower financial stress exist that indicate there will be a loss of contractually due amounts upon final resolution of the loan.

Pick-a-Pay loans may have fixed or adjustable rates with payment options that include a minimum payment, an interest-only payment or fully amortizing payment (both 15 and 30 year options). Total interest deferred due to negative amortization on Pick-a-Pay loans was $1.7 billion at June 30, 2012, and $2.0 billion at December 31, 2011. Approximately 87% of the Pick-a-Pay customers making a minimum payment in June 2012 did not defer interest, compared with 83% in December 2011.

Deferral of interest on a Pick-a-Pay loan may continue as long as the loan balance remains below a pre-defined principal cap, which is based on the percentage that the current loan balance represents to the original loan balance. Substantially all the Pick-a-Pay portfolio has a cap of 125% of the original loan balance. Most of the Pick-a-Pay loans on which there is a deferred interest balance re-amortize (the monthly payment amount is reset or recast) on the earlier of the date when the loan balance reaches its principal cap, or the 10-year anniversary of the loan. After a recast, the customers new payment terms are reset to the amount necessary to repay the balance over the rest of the original loan term.

Due to the terms of the Pick-a-Pay portfolio, there is little recast risk in the near term. Based on assumptions of a flat rate environment, if all eligible customers elect the minimum payment option 100% of the time and no balances prepay, we would expect the following balances of loans to recast based on reaching the principal cap: $3 million for the remainder of 2012, $19 million in 2013, and $64 million in 2014. In addition, in a flat rate environment, we would expect the following balances of loans to start fully amortizing due to reaching their recast anniversary date: $21 million for the

remainder of 2012, $91 million in 2013, and $332 million in 2014. In second quarter 2012, $6 million was recast based on these events.

Table 19 reflects the geographic distribution of the Pick-a-Pay portfolio broken out between PCI loans and all other loans. In stressed housing markets with declining home prices and increasing delinquencies, the LTV ratio is a useful metric in predicting future real estate 1-4 family first mortgage loan performance, including potential charge-offs. Because PCI loans were initially recorded at fair value, including write-downs for expected credit losses, the ratio of the carrying value to the current collateral value will be lower compared with the LTV based on the adjusted unpaid principal balance. For informational purposes, we have included both ratios for PCI loans in the following table.

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Table 19: Pick-a-Pay Portfolio (1)

			June 30, 2012			
			PCI loans		All other loans	
(in millions)	Adjusted unpaid principal balance (2)	Current LTV ratio (3)	Carrying value (4)	Ratio of carrying value to current value (5)	Carrying value (4)	Ratio of carrying value to current value (5)
California	$ 23,498	118 %	$ 18,329	91 %	$ 16,769	85 %
Florida	3,077	114	2,407	85	3,507	95
New Jersey	1,285	92	1,211	85	2,192	79
New York	729	91	681	84	970	80
Texas	319	77	294	71	1,389	63
Other states	5,736	106	4,781	87	9,515	85
Total Pick-a-Pay loans	$ 34,644		$ 27,703		$ 34,342	

(1) The individual states shown in this table represent the top five states based on the total net carrying value of the Pick-a-Pay loans at the beginning of 2012.

(2) Adjusted unpaid principal balance includes write-downs taken on loans where severe delinquency (normally 180 days) or other indications of severe borrower financial stress exist that indicate there will be a loss of contractually due amounts upon final resolution of the loan.

(3) The current LTV ratio is calculated as the adjusted unpaid principal balance divided by the collateral value. Collateral values are generally determined using automated valuation models (AVM) and are updated quarterly. AVMs are computer-based tools used to estimate market values of homes based on processing large volumes of market data including market comparables and price trends for local market areas.

(4) Carrying value, which does not reflect the allowance for loan losses, includes remaining purchase accounting adjustments, which, for PCI loans may include the nonaccretable difference and the accretable yield and, for all other loans, an adjustment to mark the loans to a market yield at date of merger less any subsequent charge-offs.

(5) The ratio of carrying value to current value is calculated as the carrying value divided by the collateral value.

To maximize return and allow flexibility for customers to avoid foreclosure, we have in place several loss mitigation strategies for our Pick-a-Pay loan portfolio. We contact customers who are experiencing financial difficulty and may in certain cases modify the terms of a loan based on a customer s documented income and other circumstances.

We also have taken steps to work with customers to refinance or restructure their Pick-a-Pay loans into other loan products. For customers at risk, we offer combinations of term extensions of up to 40 years (from 30 years), interest rate reductions, forbearance of principal, and, in geographies with substantial property value declines, we may offer permanent principal forgiveness.

In second quarter 2012, we completed more than 2,600 proprietary and HAMP Pick-a-Pay loan modifications and have completed more than 105,000 modifications since the Wachovia acquisition, resulting in $4.3 billion of principal forgiveness to our Pick-a-Pay customers as well as an additional $548 million of conditional forgiveness that can be earned by borrowers through performance over the next three years. As announced in October 2010, we entered into agreements with certain state attorneys general whereby we agreed to offer loan modifications to eligible Pick-a-Pay customers through June 2013. These agreements cover the majority of our option payment loan portfolio and require that we offer modifications (both HAMP and proprietary) to eligible customers with the option payment loan product. In response to these agreements, we developed an enhanced proprietary modification product that allows for various means of principal forgiveness along with changes to other loan terms. Given that these agreements cover all modification efforts to eligible customers for the applicable states, our modifications (both HAMP and proprietary) for our Pick-a-Pay loan portfolio performed in second quarter 2012 were consistent with these agreements. Additionally, as announced in

February 2012, we reached a settlement regarding our mortgage servicing and foreclosure practices with federal and state government entities, which became effective on April 5, 2012, where we committed to provide additional relief to borrowers. See the Risk Management Credit Risk Management Risks Relating to Servicing Activities section in this report and in our 2011 Form 10-K for more details.

Due to better than expected performance observed on the Pick-a-Pay portfolio compared with the original acquisition estimates, we have reclassified $2.4 billion from the nonaccretable difference to the accretable yield since acquisition. This performance is primarily attributable to significant modification efforts as well as the portfolio s delinquency stabilization. The resulting increase in the accretable yield will be realized over the remaining life of the portfolio, which is estimated to have a weighted-average remaining life of approximately 11.4 years at June 30, 2012. The accretable yield percentage at June 30, 2012, was 4.32%, down from 4.45% at the end of 2011. Fluctuations in the accretable yield are driven by changes in interest rate indices for variable rate PCI loans, prepayment assumptions, and expected principal and interest payments over the estimated life of the portfolio, which will be affected by the pace and degree of improvements in the U.S. economy and housing markets and projected lifetime performance resulting from loan modification activity. Changes in the projected timing of cash flow events, including loan liquidations, modifications and short sales, can also affect the accretable yield percentage and the estimated weighted-average life of the portfolio.

The Pick-a-Pay portfolio is a significant portion of our PCI loans. For further information on the judgment involved in estimating expected cash flows for PCI loans, please see Critical Accounting Policies Purchased Credit-Impaired Loans in our 2011 Form 10-K.

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Risk Management Credit Risk Management *(continued)*

HOME EQUITY PORTFOLIOS Our home equity portfolios consist of real estate 1-4 family junior lien mortgages and first and junior lines of credit secured by real estate. Our first lien lines of credit represent 20% of our home equity portfolio and are included in real estate 1-4 family first mortgages. The majority of our junior lien loan products are amortizing payment loans with fixed interest rates and repayment periods between 5 to 30 years. Junior lien loans with balloon payments at the end of the repayment term represent a small portion of our junior lien loans.

Our first and junior lien lines of credit products generally have a draw period of 10 years with variable interest rates and payment options during the draw period of (1) interest only or (2) 1.5% of total outstanding balance. During the draw period, the borrower has the option of converting all or a portion of the line from a variable interest rate to a fixed rate with terms

including interest-only payments for a fixed period between three to seven years or a fully amortizing payment with a fixed period between five to 30 years. At the end of the draw period, a line of credit generally converts to an amortizing payment loan with repayment terms of up to 30 years based on the balance at time of conversion. Substantially all of our lines of credit will remain in their draw period through 2014 and a majority through 2017.

Table 20 summarizes delinquency and loss rates by the holder of the lien. For additional information regarding current junior liens behind delinquent first lien loans, see the Risk Management Credit Risk Management Home Equities Portfolios section in our 2011 Form 10-K and the Risk Management Credit Risk Management Real Estate 1-4 Family First and Junior Lien Mortgage Loans section in this Report.

Table 20: Home Equity Portfolios Performance by Holder of 1st Lien (1)(2)

	Outstanding balance		% of loans two payments or more past due		Loss rate (annualized) quarter ended				
(in millions)	**June 30, 2012**	Dec. 31, 2011	**June 30, 2012**	Dec. 31, 2011	**June 30, 2012**	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
First lien lines	$ **20,242**	20,786	**3.07** %	3.10	**0.88**	1.35	0.95	0.91	0.82
Junior lien mortgages and lines behind:									
Wells Fargo owned or serviced first lien	**40,718**	42,810	**2.68**	2.91	**3.34**	3.54	3.48	3.43	3.76
Third party first lien	**39,992**	42,996	**3.00**	3.59	**3.44**	3.72	3.83	4.11	4.32
Total	$ **100,952**	106,592	**2.89**	3.22	**2.89**	3.18	3.13	3.22	3.43

(1) Excludes PCI loans and real estate 1-4 family first lien line reverse mortgages added to the consumer portfolio in fourth quarter 2011 as a result of consolidating reverse mortgage loans previously sold. These reverse mortgage loans are insured by the FHA.

(2) Includes $1.4 billion and $1.5 billion at June 30, 2012, and December 31, 2011, respectively, associated with the Pick-a-Pay portfolio.

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We monitor the number of borrowers paying the minimum amount due on a monthly basis. In June 2012, approximately 45% of our borrowers with a home equity outstanding balance paid only the minimum amount due; 93% paid the minimum or more.

The home equity liquidating portfolio includes home equity loans generated through third party channels, including correspondent loans. This liquidating portfolio represents less than 1% of our total loans outstanding at June 30, 2012, and contains some of the highest risk in our home equity portfolio, with a loss rate of 8.14% compared with 2.60% for the core (non-liquidating) home equity portfolio at June 30, 2012. Table 21 shows the credit attributes of the core and liquidating home equity portfolios and lists the top five states by outstanding balance. California loans represent the largest state concentration in each of these portfolios. The decrease in outstanding balances primarily reflects loan paydowns and charge-offs. As of June 30, 2012, 36% of the outstanding balance of the core home equity portfolio was associated with loans that had a combined loan to value (CLTV) ratio in excess of 100%. CLTV means the ratio of the total loan balance of first mortgages and junior lien mortgages (including unused line amounts for credit line products) to property collateral value. The unsecured portion of the outstanding balances of these loans (the outstanding amount that was in excess of the most recent property collateral value) totaled 16% of the core home equity portfolio at June 30, 2012.

Table 21: Home Equity Portfolios (1)

	Outstanding balance		% of loans two payments or more past due		Loss rate (annualized) quarter ended				
(in millions)	**June 30, 2012**	Dec. 31, 2011	**June 30, 2012**	Dec. 31, 2011	**June 30, 2012**	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Core portfolio (2)									
California	**$ 24,316**	25,555	**2.66 %**	3.03	**3.13**	3.56	3.42	3.41	3.69
Florida	**10,296**	10,870	**4.36**	4.99	**3.76**	4.79	4.30	4.42	5.23
New Jersey	**7,640**	7,973	**3.57**	3.73	**2.02**	2.46	2.22	2.17	2.05
Virginia	**4,998**	5,248	**1.98**	2.15	**1.60**	1.42	1.31	1.67	1.85
Pennsylvania	**4,867**	5,071	**2.50**	2.82	**1.45**	1.49	1.41	1.38	1.49
Other	**43,636**	46,165	**2.53**	2.79	**2.37**	2.50	2.50	2.64	2.70
Total	**95,753**	100,882	**2.81**	3.13	**2.60**	2.91	2.79	2.88	3.08
Liquidating portfolio									
California	**1,827**	2,024	**5.16**	5.50	**10.98**	10.80	11.93	12.62	12.73
Florida	**242**	265	**5.87**	7.02	**7.92**	9.84	9.71	11.06	10.52
Arizona	**104**	116	**4.39**	6.64	**11.89**	15.08	17.54	18.30	14.01
Texas	**86**	97	**1.26**	0.93	**2.01**	2.43	1.57	3.07	3.40
Minnesota	**69**	75	**2.54**	2.83	**10.10**	5.07	8.13	6.11	7.83
Other	**2,871**	3,133	**3.55**	4.13	**6.35**	6.23	7.12	6.20	6.73
Total	**5,199**	5,710	**4.19**	4.73	**8.14**	8.11	9.09	8.97	9.22
Total core and liquidating portfolios	**$ 100,952**	106,592	**2.89**	3.22	**2.89**	3.18	3.13	3.22	3.43

(1) Consists predominantly of real estate 1-4 family junior lien mortgages and first and junior lines of credit secured by real estate, but excludes PCI loans because their losses are generally covered by PCI accounting adjustment at the date of acquisition, and excludes real estate 1-4 family first lien open-ended line reverse mortgages because they do not have scheduled payments. These reverse mortgage loans are insured by the FHA.

(2) Includes $1.4 billion and $1.5 billion at June 30, 2012 and December 31, 2011, respectively, associated with the Pick-a-Pay portfolio.

CREDIT CARDS Our credit card portfolio totaled $22.7 billion at June 30, 2012, which represented 3% of our total outstanding loans. The quarterly net charge-off rate (annualized) for our credit card loans was 4.37% for second quarter 2012 compared with 5.63% for second quarter 2011.

OTHER REVOLVING CREDIT AND INSTALLMENT Other revolving credit and installment loans totaled $87.3 billion at June 30, 2012, and predominantly include automobile, student and security-based margin loans. The quarterly loss rate (annualized) for other revolving credit and installment loans was 0.79% for second quarter 2012 compared with 1.03% for second quarter 2011. Excluding government guaranteed student loans, the loss rates were 0.90% and 1.23% for second quarter 2012 and 2011, respectively.

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Risk Management Credit Risk Management *(continued)*

NONPERFORMING ASSETS (NONACCRUAL LOANS AND FORECLOSED ASSETS) Table 22 summarizes nonperforming assets (NPAs) for each of the last four quarters. We generally place loans on nonaccrual status when:

- the full and timely collection of interest or principal becomes uncertain (generally based on an assessment of the borrower s financial condition and the adequacy of collateral, if any);
- they are 90 days (120 days with respect to real estate 1-4 family first and junior lien mortgages) past due for interest or principal, unless both well-secured and in the process of collection;
- part of the principal balance has been charged off and no restructuring has occurred; or
- effective first quarter 2012, for junior lien mortgages, we have evidence that the related first lien mortgage may be 120 days past due or in the process of foreclosure regardless of the junior lien delinquency status.

Table 22: Nonperforming Assets (Nonaccrual Loans and Foreclosed Assets)

	June 30, 2012		March 31, 2012		December 31, 2011		September 30, 2011	
($ in millions)	**Balance**	**% of total loans**	Balance	% of total loans	Balance	% of total loans	Balance	% of total loans
Nonaccrual loans:								
Commercial:								
Commercial and industrial	**$ 1,549**	**0.87 %**	$ 1,726	1.02 %	$ 2,142	1.28 %	$ 2,128	1.29 %
Real estate mortgage	**3,832**	**3.63**	4,081	3.85	4,085	3.85	4,429	4.24
Real estate construction	**1,421**	**8.08**	1,709	9.21	1,890	9.75	1,915	9.71
Lease financing	**43**	**0.34**	45	0.34	53	0.40	71	0.55
Foreign	**79**	**0.20**	38	0.10	47	0.12	68	0.18
Total commercial (1)	**6,924**	**1.96**	7,599	2.20	8,217	2.38	8,611	2.53
Consumer:								
Real estate 1-4 family first mortgage (2)	**10,368**	**4.50**	10,683	4.67	10,913	4.77	11,024	4.93
Real estate 1-4 family junior lien mortgage (3)	**3,091**	**3.82**	3,558	4.28	1,975	2.30	2,035	2.31
Other revolving credit and installment	**195**	**0.22**	186	0.21	199	0.23	230	0.27
Total consumer	**13,654**	**3.24**	14,427	3.43	13,087	3.09	13,289	3.16
Total nonaccrual loans (4)(5)(6)	**20,578**	**2.65**	22,026	2.87	21,304	2.77	21,900	2.88
Foreclosed assets:								
Government insured/guaranteed (7)	**1,465**		1,352		1,319		1,336	
Non-government insured/guaranteed	**2,842**		3,265		3,342		3,608	
Total foreclosed assets	**4,307**		4,617		4,661		4,944	

Total nonperforming assets	**$**	**24,885**	**3.21 %**	$	26,643	3.48 %	$	25,965	3.37 %	$ 26,844	3.53 %
Change in NPAs from prior quarter	**$**	**(1,758)**			678			(879)		(1,062)	

(1) Includes LHFS of $17 million, $9 million, $25 million and $37 million at June 30 and March 31, 2012, and December 31 and September 30, 2011, respectively.

(2) Includes MHFS of $310 million, $287 million, $301 million and $311 million at June 30 and March 31, 2012, and December 31 and September 30, 2011, respectively.

(3) Includes $1.7 billion at March 31, 2012, resulting from implementation of the Interagency Guidance issued on January 31, 2012. This guidance accelerated the timing of placing these loans on nonaccrual to coincide with the timing of placing the related real estate 1-4 family first mortgage loans on nonaccrual.

(4) Excludes PCI loans because they continue to earn interest income from accretable yield, independent of performance in accordance with their contractual terms.

(5) Real estate 1-4 family mortgage loans insured by the FHA or guaranteed by the VA and student loans predominantly guaranteed by agencies on behalf of the U.S. Department of Education under the Federal Family Education Loan Program are not placed on nonaccrual status because they are insured or guaranteed.

(6) See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for further information on impaired loans.

(7) Consistent with regulatory reporting requirements, foreclosed real estate securing government insured/guaranteed loans are classified as nonperforming. Both principal and interest for government insured/guaranteed loans secured by the foreclosed real estate are collectible because the loans are insured by the FHA or guaranteed by the VA.

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Total NPAs were $24.9 billion (3.2% of total loans) at June 30, 2012, and included $20.6 billion of nonaccrual loans and $4.3 billion of foreclosed assets. Nonaccrual loans decreased in

second quarter 2012, consistent with the continued improvement in credit performance. Table 23 provides an analysis of the changes in nonaccrual loans.

Table 23: Analysis of Changes in Nonaccrual Loans

					Quarter ended
(in millions)	**June 30, 2012**	Mar. 31, 2012	Dec. 31 2011	Sept. 30, 2011	June 30, 2011
Commercial nonaccrual loans					
Balance, beginning of quarter	**$ 7,599**	8,217	8,611	9,265	10,312
Inflows	**952**	1,138	1,329	1,148	1,622
Outflows:					
Returned to accruing	**(242)**	(188)	(185)	(275)	(501)
Foreclosures	**(92)**	(119)	(161)	(156)	(174)
Charge-offs	**(402)**	(347)	(382)	(397)	(399)
Payments, sales and other (1)	**(891)**	(1,102)	(995)	(974)	(1,595)
Total outflows	**(1,627)**	(1,756)	(1,723)	(1,802)	(2,669)
Balance, end of quarter	**6,924**	7,599	8,217	8,611	9,265
Consumer nonaccrual loans					
Balance, beginning of quarter	**14,427**	13,087	13,289	13,780	14,653
Inflows (2)	**2,750**	4,765	3,465	3,544	3,443
Outflows:					
Returned to accruing	**(1,344)**	(943)	(1,277)	(1,411)	(1,562)
Foreclosures	**(186)**	(226)	(209)	(286)	(221)
Charge-offs	**(1,137)**	(1,364)	(1,404)	(1,385)	(1,494)
Payments, sales and other (1)	**(866)**	(892)	(777)	(953)	(1,039)
Total outflows	**(3,523)**	(3,425)	(3,667)	(4,035)	(4,316)
Balance, end of quarter	**13,654**	14,427	13,087	13,289	13,780
Total nonaccrual loans	**$ 20,578**	22,026	21,304	21,900	23,045

(1) Other outflows include the effects of VIE deconsolidations and adjustments for loans carried at fair value.
(2) March 31, 2012, includes $1.7 billion moved to nonaccrual status as a result of implementing Interagency Guidance issued January 31, 2012.

Typically, changes to nonaccrual loans period-over-period represent inflows for loans that reach a specified past due status, offset by reductions for loans that are charged off, sold, transferred to foreclosed properties, or are no longer classified as nonaccrual as a result of continued performance and an improvement in the borrower s financial condition and loan repayment capabilities.

While nonaccrual loans are not free of loss content, we believe exposure to loss is significantly mitigated by four factors. First, 99% of the $13.7 billion of consumer nonaccrual loans and 96% of the $6.9 billion of commercial nonaccrual loans are secured at June 30, 2012. Of the consumer nonaccrual loans, 99% are secured by real estate and 35% have a combined LTV (CLTV) ratio of 80% or below. Second, losses of $4.1 billion and $2.1 billion have already been recognized on 48% of consumer nonaccrual loans and 41% of commercial nonaccrual loans, respectively. Generally, when a consumer real estate loan is 120 days past due, we transfer it to nonaccrual status. When the loan reaches 180 days past due it is our policy to write these loans down to net realizable value (fair value of collateral less estimated costs to sell), except for modifications in their trial period that are not written down as long as trial payments are made on time. Thereafter, we revalue each loan regularly and recognize additional write-downs if needed. Third, as of June 30, 2012, 60% of commercial nonaccrual loans were current on interest. Fourth, the risk of loss for all nonaccruals has been considered and we believe is appropriately covered by the allowance for loan losses.

Under both our proprietary modification programs and the MHA programs, customers may be required to provide updated documentation, and some programs require completion of trial payment periods to demonstrate sustained performance before the loan can be removed from nonaccrual status. In addition, for loans in foreclosure, many states, including California, Florida and New Jersey, have enacted legislation that significantly increases the time to complete the foreclosure process, meaning that loans will remain in nonaccrual status for longer periods.

Table 24 provides a summary of foreclosed assets and an analysis of changes in foreclosed assets.

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Risk Management Credit Risk Management *(continued)*

Table 24: Foreclosed Assets

(in millions)		**June 30, 2012**	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Government insured/guaranteed (1)	$	**1,465**	1,352	1,319	1,336	1,320
PCI loans:						
Commercial		**777**	875	840	1,079	993
Consumer		**321**	431	465	530	469
Total PCI loans		**1,098**	1,306	1,305	1,609	1,462
All other loans:						
Commercial		**1,147**	1,289	1,379	1,322	1,409
Consumer		**597**	670	658	677	670
Total all other loans		**1,744**	1,959	2,037	1,999	2,079
Total foreclosed assets	$	**4,307**	4,617	4,661	4,944	4,861
Analysis of changes in foreclosed assets						
Balance, beginning of quarter	$	**4,617**	4,661	4,944	4,861	5,512
Net change in government insured/guaranteed (2)		**113**	33	(17)	16	(137)
Additions to foreclosed assets (3)		**664**	926	934	1,440	880
Reductions:						
Sales		**(1,003)**	(896)	(1,123)	(1,260)	(1,294)
Write-downs and loss on sales		**(84)**	(107)	(77)	(113)	(100)
Total reductions		**(1,087)**	(1,003)	(1,200)	(1,373)	(1,394)
Balance, end of quarter	$	**4,307**	4,617	4,661	4,944	4,861

(1) Consistent with regulatory reporting requirements, foreclosed real estate securing government insured/guaranteed loans are classified as nonperforming. Both principal and interest for government insured/guaranteed loans secured by the foreclosed real estate are collectible because the loans are insured by the FHA or guaranteed by the VA.
(2) Foreclosed government insured/guaranteed loans are temporarily transferred to and held by us as servicer, until reimbursement is received from FHA or VA. The net change in government insured/guaranteed foreclosed assets is made up of inflows from mortgages held for investment and MHFS, and outflows when we are reimbursed by FHA/VA.
(3) Predominantly include loans moved into foreclosure from non-accrual status, PCI loans transitioned directly to foreclosed assets and repossessed automobiles.

Foreclosed assets at June 30, 2012, included $1.5 billion of foreclosed real estate that is FHA insured or VA guaranteed and expected to have little to no loss content. The remaining balance of $2.8 billion of foreclosed assets has been written down to estimated net realizable value. Foreclosed assets were down $354 million, or 8%, at June 30, 2012, compared with December 31, 2011. At June 30, 2012, 76% of our foreclosed assets of $4.3 billion have been in the foreclosed assets portfolio one year or less. Given our real estate-secured loan concentrations and current economic conditions, we anticipate we will continue to hold a high level of NPAs on our balance sheet.

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TROUBLED DEBT RESTRUCTURINGS (TDRs)

Table 25: Troubled Debt Restructurings (TDRs) (1)

(in millions)		June 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Commercial TDRs						
Commercial and industrial	$	**1,937**	1,967	2,026	2,192	1,821
Real estate mortgage		**2,457**	2,485	2,262	1,752	1,444
Real estate construction		**980**	1,048	1,008	795	694
Lease financing		**27**	29	33	51	84
Foreign		**28**	19	20	9	10
Total commercial TDRs		**5,429**	5,548	5,349	4,799	4,053
Consumer TDRs						
Real estate 1-4 family first mortgage		**13,919**	13,870	13,799	13,512	12,938
Real estate 1-4 family junior lien mortgage		**1,975**	1,981	1,986	1,975	1,910
Other revolving credit and installment		**856**	873	872	875	838
Trial modifications (1)		**745**	723	651	668	942
Total consumer TDRs		**17,495**	17,447	17,308	17,030	16,628
Total TDRs	$	**22,924**	22,995	22,657	21,829	20,681
TDRs on nonaccrual status	$	**6,900**	7,136	6,811	6,758	6,568
TDRs on accrual status		**16,024**	15,859	15,846	15,071	14,113
Total TDRs	$	**22,924**	22,995	22,657	21,829	20,681

(1) Based on clarifying guidance from the Securities and Exchange Commission (SEC) received in December 2011, we classify trial modifications as TDRs at the beginning of the trial period. For many of our consumer real estate modification programs, we may require a borrower to make trial payments generally for a period of three to four months. Prior to the SEC clarification, we classified trial modifications as TDRs once a borrower successfully completed the trial period in accordance with the terms.

Table 25 provides information regarding the recorded investment of loans modified in TDRs. The allowance for loan losses for TDRs was $5.4 billion and $5.2 billion at June 30, 2012, and December 31, 2011, respectively. See Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report for additional information regarding TDRs.

We do not forgive principal for a majority of our TDRs, but in those situations where principal is forgiven, the entire amount of such principal forgiveness is immediately charged off to the extent not done so prior to the modification. We sometimes delay the timing on the repayment of a portion of principal (principal forbearance) and charge off the amount of forbearance if that amount is not considered fully collectible.

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Risk Management Credit Risk Management *(continued)*

Table 26 provides an analysis of the changes in TDRs.

Table 26: Analysis of Changes in TDRs

					Quarter ended
(in millions)	**June 30, 2012**	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Commercial TDRs					
Balance, beginning of quarter	**$ 5,548**	5,349	4,799	4,053	3,145
Inflows	**687**	710	1,271	1,321	1,275
Outflows					
Charge-offs	**(112)**	(119)	(84)	(68)	(36)
Foreclosure	**(24)**	(2)	(16)	(23)	(21)
Payments, sales and other (1)	**(670)**	(390)	(621)	(484)	(310)
Balance, end of quarter	**5,429**	5,548	5,349	4,799	4,053
Consumer TDRs					
Balance, beginning of quarter	**17,447**	17,308	17,030	16,628	15,888
Inflows	**762**	829	904	1,455	1,574
Outflows					
Charge-offs	**(319)**	(295)	(261)	(290)	(289)
Foreclosure	**(25)**	(33)	(33)	(39)	(33)
Payments, sales and other (1)	**(392)**	(434)	(315)	(450)	(510)
Net change in trial modifications (2)	**22**	72	(17)	(274)	(2)
Balance, end of quarter	**17,495**	17,447	17,308	17,030	16,628
Total TDRs	**$ 22,924**	22,995	22,657	21,829	20,681

(1) Other outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held-for-sale.
(2) Net change in trial modifications includes: inflows of new TDRs entering the trial payment period, net of outflows for modifications that either (i) successfully perform and enter into a permanent modification, or (ii) did not successfully perform according to the terms of the trial period plan and are subsequently charged-off, foreclosed upon or otherwise resolved. Our recent experience is that most of the mortgages that enter a trial payment period program are successful in completing the program requirements.

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LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING Loans 90 days or more past due as to interest or principal are still accruing if they are (1) well-secured and in the process of collection or (2) real estate 1-4 family mortgage loans or consumer loans exempt under regulatory rules from being classified as nonaccrual until later delinquency, usually 120 days past due. PCI loans of $6.6 billion, $7.1 billion, $8.7 billion, $8.9 billion and $9.8 billion at June 30 and March 31, 2012, and December 31, September 30 and June 30, 2011, respectively, are not included in these past due and still accruing loans even though they are 90 days or more contractually past due. These PCI loans are considered to be accruing due to the existence of the accretable yield and not based on consideration given to contractual interest payments.

Excluding insured/guaranteed loans, loans 90 days or more past due and still accruing at June 30, 2012, were down $688 million, or 34%, from December 31, 2011, due to loss mitigation

activities including modifications, charge-offs, seasonally lower early stage delinquency levels, decline in non-strategic and liquidating portfolios, and credit stabilization. Loans 90 days or more past due and still accruing whose repayments are insured by the Federal Housing Administration (FHA) or predominantly guaranteed by the Department of Veterans Affairs (VA) for mortgages and the U.S. Department of Education for student loans under the Federal Family Education Loan Program (FFELP) were $21.5 billion at June 30, 2012, up from $20.5 billion at December 31, 2011.

Table 27 reflects non-PCI loans 90 days or more past due and still accruing by class for loans not government insured/guaranteed. For additional information on delinquencies by loan class, see Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 27: Loans 90 Days or More Past Due and Still Accruing

(in millions)		**June 30, 2012**	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Loans 90 days or more past due and still accruing:						
Total (excluding PCI):	$	**22,872**	22,555	22,569	19,639	17,318
Less: FHA insured/guaranteed by the VA (1)(2)		**20,368**	19,681	19,240	16,498	14,474
Less: Student loans guaranteed under the FFELP (3)		**1,144**	1,238	1,281	1,212	1,014
Total, not government insured/guaranteed	$	**1,360**	1,636	2,048	1,929	1,830
By segment and class, not government insured/guaranteed:						
Commercial:						
Commercial and industrial	$	**44**	104	153	108	110
Real estate mortgage		**184**	289	256	207	137
Real estate construction		**25**	25	89	57	86
Foreign		**3**	7	6	11	12
Total commercial		**256**	425	504	383	345
Consumer:						
Real estate 1-4 family first mortgage (2)		**561**	616	781	819	728
Real estate 1-4 family junior lien mortgage (2)(4)		**159**	156	279	255	286
Credit card		**274**	319	346	328	334
Other revolving credit and installment		**110**	120	138	144	137
Total consumer		**1,104**	1,211	1,544	1,546	1,485
Total, not government insured/guaranteed	$	**1,360**	1,636	2,048	1,929	1,830

(1) Represents loans whose repayments are insured by the FHA or guaranteed by the VA.
(2) Includes mortgages held for sale 90 days or more past due and still accruing.
(3) Represents loans whose repayments are predominantly guaranteed by agencies on behalf of the U.S. Department of Education under the FFELP.
(4)

During first quarter 2012, $43 million of 1-4 family junior lien mortgages were transferred to nonaccrual upon implementation of the Interagency Guidance issued on January 31, 2012.

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Risk Management Credit Risk Management *(continued)*

NET CHARGE-OFFS

Table 28: Net Charge-offs

									Quarter ended	
	June 30, 2012		March 31, 2012		December 31, 2011		September 30, 2011		June 30, 2011	
($ in millions)	**Net loan charge-offs**	**As a % of avg. loans(1)**	Net loan charge-offs	As a % of avg. loans (1)	Net loan charge-offs	As a % of avg. loans (1)	Net loan charge-offs	As a % of avg. loans (1)	Net loan charge-offs	As a % of avg. loans (1)
Commercial:										
Commercial and industrial	**$ 249**	**0.58 %**	$ 256	0.62 %	$ 310	0.74 %	$ 261	0.65 %	$ 254	0.66 %
Real estate mortgage	**81**	**0.31**	46	0.17	117	0.44	96	0.37	128	0.50
Real estate construction	**17**	**0.40**	67	1.43	(5)	(0.09)	55	1.06	72	1.32
Lease financing	**-**	**-**	2	0.06	4	0.13	3	0.11	1	0.01
Foreign	**11**	**0.11**	14	0.14	45	0.45	8	0.08	47	0.52
Total commercial	**358**	**0.42**	385	0.45	471	0.54	423	0.50	502	0.62
Consumer:										
Real estate 1-4 family first mortgage	**743**	**1.30**	791	1.39	844	1.46	821	1.46	909	1.62
Real estate 1-4 family junior lien mortgage	**689**	**3.38**	763	3.62	800	3.64	842	3.75	909	3.97
Credit card	**240**	**4.37**	242	4.40	256	4.63	266	4.90	294	5.63
Other revolving credit and installment	**170**	**0.79**	214	0.99	269	1.24	259	1.19	224	1.03
Total consumer	**1,842**	**1.76**	2,010	1.91	2,169	2.02	2,188	2.06	2,336	2.21
Total	**$ 2,200**	**1.15 %**	$ 2,395	1.25 %	$ 2,640	1.36 %	$ 2,611	1.37 %	$ 2,838	1.52 %

(1) Quarterly net charge-offs as a percentage of average respective loans are annualized.

Table 28 presents net charge-offs for second quarter 2012 and the previous four quarters. Net charge-offs in second quarter 2012 were $2.2 billion (1.15% of average total loans outstanding) compared with $2.8 billion (1.52%) in second quarter 2011. In general, net charge-offs declined as to amount and percentage of average loans for all categories of loans in second quarter 2012 compared with second quarter 2011, as we saw signs of stabilization in the housing market although the economic recovery remained uneven.

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ALLOWANCE FOR CREDIT LOSSES The allowance for credit losses, which consists of the allowance for loan losses and the allowance for unfunded credit commitments, is management s estimate of credit losses inherent in the loan portfolio and unfunded credit commitments at the balance sheet date, excluding loans carried at fair value. The detail of the changes in the allowance for credit losses by portfolio segment (including charge-offs and recoveries by loan class) is in Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report. Table 29 provides a summary of our allowance for credit losses.

We employ a disciplined process and methodology to establish our allowance for credit losses each quarter. This process takes into consideration many factors, including historical and forecasted loss trends, loan-level credit quality ratings and loan grade-specific loss factors. The process involves subjective and complex judgments. In addition, we review a variety of credit metrics and trends. These credit metrics and trends, however, do not solely determine the amount of the allowance as we use several analytical tools. For additional information on our allowance for credit losses, see the Critical Accounting Policies Allowance for Credit Losses section in our 2011 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

Table 29: Allowance for Credit Losses

(in millions)		**June 30, 2012**	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Components:						
Allowance for loan losses	$	**18,320**	18,852	19,372	20,039	20,893
Allowance for unfunded credit commitments		**326**	277	296	333	369
Allowance for credit losses	$	**18,646**	19,129	19,668	20,372	21,262
Allowance for loan losses as a percentage of total loans		**2.36 %**	2.46	2.52	2.64	2.78
Allowance for loan losses as a percentage of annualized net charge-offs		**207**	196	185	193	184
Allowance for credit losses as a percentage of total loans		**2.41**	2.50	2.56	2.68	2.83
Allowance for credit losses as a percentage of total nonaccrual loans		**91**	87	92	93	92

In addition to the allowance for credit losses, there was $9.2 billion at June 30, 2012, and $10.7 billion at December 31, 2011, of nonaccretable difference to absorb losses for PCI loans. The allowance for credit losses is lower than otherwise would have been required without PCI loan accounting. As a result of PCI loans, certain ratios of the Company may not be directly comparable with prior periods. For additional information on PCI loans, see the Risk Management Credit Risk Management Purchased Credit-Impaired Loans section and Note 5 (Loans and Allowance for Credit Losses) to Financial Statements in this Report.

The ratio of the allowance for credit losses to total nonaccrual loans may fluctuate significantly from period to period due to such factors as the mix of loan types in the portfolio, borrower credit strength and the value and marketability of collateral. Over half of nonaccrual loans were home mortgages at June 30, 2012.

The $532 million linked-quarter decline in the allowance for loan losses in second quarter 2012 reflected continued improvement in consumer delinquency trends and improved portfolio performance. Total provision for credit losses was $1.8 billion in each of second quarter 2012 and 2011. The second quarter 2012 provision was $400 million less than net charge-offs, compared with a provision that was $400 million, $600 million, $800 million, and $1.0 billion less than net charge-offs in the first quarter of 2012 and fourth, third and second quarters of 2011, respectively.

In determining the appropriate allowance attributable to our residential real estate portfolios, our process considers the associated credit cost, including re-defaults of modified loans and projected loss severity for loan modifications that occur or are probable to occur. In addition, our process incorporates the

estimated allowance associated with recent events including our settlement announced in first quarter 2012 with federal and state government entities relating to our mortgage servicing and foreclosure practices and high risk portfolios defined in the Interagency Guidance relating to junior lien mortgages.

Changes in the allowance reflect changes in statistically derived loss estimates, historical loss experience, current trends in borrower risk and/or general economic activity on portfolio performance, and management s estimate for imprecision and uncertainty.

We believe the allowance for credit losses of $18.6 billion was appropriate to cover credit losses inherent in the loan portfolio, including unfunded credit commitments, at June 30, 2012. The allowance for credit losses is subject to change and reflects existing factors at the time of determination, including economic or market conditions and ongoing internal and external examination processes. Due to the sensitivity of the allowance for credit losses to changes in the economy and business environment, it is possible that we will incur incremental credit losses not anticipated as of the balance sheet date. Absent significant deterioration in the economy, we expect continued but more modest improvement in credit performance for the remainder of 2012, and we continue to expect future allowance releases in 2012. Our process for determining the allowance for credit losses is discussed in the Critical Accounting Policies Allowance for Credit Losses section in our 2011 Form 10-K and Note 5 (Loans and Allowance for Credit Losses) to the Financial Statements in this Report.

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Risk Management Credit Risk Management *(continued)*

LIABILITY FOR MORTGAGE LOAN REPURCHASE LOSSES We sell residential mortgage loans to various parties, including (1) government-sponsored entities Freddie Mac and Fannie Mae (GSEs) who include the mortgage loans in GSE-guaranteed mortgage securitizations, (2) SPEs that issue private label MBS, and (3) other financial institutions that purchase mortgage loans for investment or private label securitization. In addition, we pool FHA-insured and VA-guaranteed mortgage loans that back securities guaranteed by GNMA. We may be required to repurchase these mortgage loans, indemnify the securitization trust, investor or insurer, or reimburse the securitization trust, investor or insurer for credit losses incurred on loans (collectively, repurchase) in the event of a breach of contractual representations or warranties that is not remedied within a period (usually 90 days or less) after we receive notice of the breach.

We have established a mortgage repurchase liability related to various representations and warranties that reflect management s estimate of probable losses for loans for which we have a repurchase obligation, whether or not we currently service those loans, based on a combination of factors. Our mortgage repurchase liability estimation process also incorporates a forecast for repurchase demands associated with mortgage insurance rescission activity. Repurchase demands have primarily related to 2006 through 2008 vintages and to GSE-guaranteed MBS.

During second quarter 2012, we continued to experience elevated levels of repurchase activity measured by the number of investor repurchase demands and our level of repurchases. We repurchased or reimbursed investors for incurred losses on mortgage loans with original balances of $847 million in second quarter 2012, compared with $598 million a year ago. In second quarter 2011, we also negotiated a settlement on a pool of mortgage loans with original sold balances of $302 million. This settlement occurred with a private investor to whom we had sold the loans and settled all future mortgage repurchase requests for this pool of loans with this counterparty. We incurred net losses on repurchased loans and investor reimbursements totaling $349 million in second quarter 2012 compared with $261 million a year ago.

Table 30 provides the number of unresolved repurchase demands and mortgage insurance rescissions. We do not typically receive repurchase requests from GNMA, FHA/HUD or VA. As an originator of an FHA insured or VA guaranteed loan, we are responsible for obtaining the insurance with FHA or the guarantee with the VA. To the extent we are not able to obtain the insurance or the guarantee we must request to repurchase the loan from the GNMA pool. Such repurchases from GNMA pools typically represent a self-initiated process upon discovery of the uninsurable loan (usually within 180 days from funding of the loan). Alternatively, in lieu of repurchasing loans from GNMA pools, we may be asked by the FHA/HUD or the VA to indemnify them (as applicable) for defects found in the Post Endorsement Technical Review process or audits performed by FHA/HUD or the VA. Our liability for mortgage loan repurchase losses incorporates probable losses associated with such indemnification.

Table 30: Unresolved Repurchase Demands and Mortgage Insurance Rescissions

	Government sponsored entities (1)		Private		Mortgage insurance rescissions with no demand (2)		Total	
($ in millions)	Number of loans	Original loan balance (3)	Number of loans	Original loan balance (3)	Number of loans	Original loan balance (3)	Number of loans	Original loan balance (3)
2012								
June 30,	**5,687**	**$ 1,265**	**913**	**$ 213**	**840**	**$ 188**	**7,440**	**$ 1,666**
March 31,	6,333	1,398	857	241	970	217	8,160	1,856
2011								
December 31,	7,066	1,575	470	167	1,178	268	8,714	2,010
September 30,	6,577	1,500	582	208	1,508	314	8,667	2,022
June 30,	6,876	1,565	695	230	2,019	444	9,590	2,239
March 31,	6,210	1,395	1,973	424	2,885	674	11,068	2,493

(1) Includes repurchase demands of 526 and $103 million, 694 and $131 million, 861 and $161 million, 878 and $173 million and 892 and $179 million, for June 30 and March 31, 2012, and December 31, September 30 and June 30, 2011, respectively, received from investors on mortgage servicing rights acquired from other originators. We generally have the right of recourse against the seller and may be able to recover losses related to such repurchase demands subject to counterparty risk associated with the seller. The number of repurchase demands from GSEs that are from mortgage loans originated in 2006 through 2008 totaled 78% at June 30, 2012.

(2) As part of our representations and warranties in our loan sales contracts, we typically represent to GSEs and private investors that certain loans have mortgage insurance to the extent there are loans that have loan to value ratios in excess of 80% that require mortgage insurance. To the extent the mortgage insurance is rescinded by the mortgage insurer due to a claim of breach of a contractual representation or warranty, the lack of insurance may result in a repurchase demand from an investor. Similar to repurchase demands, we evaluate mortgage insurance rescission notices for validity and appeal for reinstatement if the rescission was not based on a contractual breach. When investor demands are received due to lack of mortgage insurance, they are reported as unresolved repurchase demands based on the applicable investor category for the loan (GSE or private). Over the last year, approximately 20% of our repurchase demands from GSEs had mortgage insurance rescission as one of the reasons for the repurchase demand. Of all the mortgage insurance rescissions notices received in 2011, approximately 80% have resulted in repurchase demands through June 2012. Not all mortgage insurance rescissions received in 2011 have been completed through the appeals process with the mortgage insurer and, upon successful appeal, we work with the investor to rescind the repurchase demand.

(3) While the original loan balances related to these demands are presented above, the establishment of the repurchase liability is based on a combination of factors, such as our appeals success rates, reimbursement by correspondent and other third party originators, and projected loss severity, which is driven by the difference between the current loan balance and the estimated collateral value less costs to sell the property.

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The overall level of unresolved repurchase demands and mortgage insurance rescissions outstanding at June 30, 2012, was down from a year ago in both number of outstanding loans and in total dollar balances as we continued to work through the demands and mortgage insurance rescissions. Customary with industry practice, we have the right of recourse against correspondent lenders from whom we have purchased loans with respect to representations and warranties. Of total repurchase demands and mortgage insurance recissions outstanding as of June 30, 2012, presented in Table 30, approximately 20% relate to loans purchased from correspondent lenders. Due primarily to the financial difficulties of some correspondent lenders, we are currently recovering on average approximately 45% of losses from these lenders. Historical recovery rates as well as projected lender performance are incorporated in the establishment of our mortgage repurchase liability.

We believe we have a high quality residential mortgage loan servicing portfolio. Of the $1.9 trillion in the residential mortgage loan servicing portfolio at June 30, 2012, 93% was current, less than 2% was subprime at origination, and less than 1% was home equity securitizations. Our combined delinquency and foreclosure rate on this portfolio was 7.14% at June 30, 2012, compared with 7.96% at December 31, 2011. Five percent of this portfolio are private label securitizations where we originated the loans and therefore have some repurchase risk. We believe the risk of repurchase in our private label securitizations is substantially reduced, relative to other private label securitizations, because approximately half of this portfolio of private label securitizations do not contain representations

and warranties regarding borrower or other third party misrepresentations related to the mortgage loan, general compliance with underwriting guidelines, or property valuation, which are commonly asserted bases for repurchase. For this 5% private label securitization segment of our residential mortgage loan servicing portfolio (weighted average age of 81 months), 58% are loans from 2005 vintages or earlier; 79% were prime at origination; and approximately 65% are jumbo loans. The weighted-average LTV as of June 30, 2012 for this private securitization segment was 76%. We believe the highest risk segment of these private label securitizations is the subprime loans originated in 2006 and 2007. These subprime loans have seller representations and warranties and currently have LTVs close to or exceeding 100%, and represent 9% of the private label securitization portion of the residential mortgage servicing portfolio. We had only $58 million of repurchases related to private label securitizations in the second quarter 2012. Of the servicing portfolio, 4% is non-agency acquired servicing and 1% is private whole loan sales. We did not underwrite and securitize the non-agency acquired servicing and therefore we have no obligation on that portion of our servicing portfolio to the investor for any repurchase demands arising from origination practices. For the private whole loan segment, while we do have repurchase risk on these loans, less than 2% were subprime at origination and loans that were sold and subsequently securitized are included in the private label securitization segment discussed above.

Table 31 summarizes the changes in our mortgage repurchase liability.

Table 31: Changes in Mortgage Repurchase Liability

					Quarter ended
(in millions)	**June 30, 2012**	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Balance, beginning of period	$ **1,444**	1,326	1,194	1,188	1,207
Provision for repurchase losses:					
Loan sales	**72**	62	27	19	20
Change in estimate (1)	**597**	368	377	371	222
Total additions	**669**	430	404	390	242
Losses	**(349)**	(312)	(272)	(384)	(261)
Balance, end of period	$ **1,764**	1,444	1,326	1,194	1,188

(1) Results from changes in investor demand and mortgage insurer practices, credit deterioration and changes in the financial stability of correspondent lenders.

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Risk Management Credit Risk Management *(continued)*

The mortgage repurchase liability of $1.8 billion at June 30, 2012 represents our best estimate of the probable loss that we expect to incur for various representations and warranties in the contractual provisions of our sales of mortgage loans. The mortgage repurchase liability estimation process requires management to make difficult, subjective and complex judgments about matters that are inherently uncertain, including demand expectations, economic factors, and the specific characteristics of the loans subject to repurchase. Our evaluation considers the collective actions of the GSEs and their regulator, the Federal Housing Finance Agency (FHFA), mortgage insurers and our correspondent lenders. We maintain regular contact with the GSEs, the FHFA, and other significant investors to monitor their repurchase demand practices and issues as part of our process to update our repurchase liability estimate as new information becomes available.

Our liability for mortgage repurchases, included in Accrued expenses and other liabilities in our consolidated balance sheet, was $1.8 billion at June 30, 2012 and $1.3 billion at December 31, 2011. In the quarter ended June 30, 2012, we provided $669 million, which reduced net gains on mortgage loan origination/sales activities, compared with a provision of $242 million a year ago. Our provision in second quarter 2012 reflected an increase in projections of future GSE repurchase demands, net of appeals, for the 2006 through 2008 vintages to incorporate the impact of recent trends in file requests and repurchase demand activity (comprising approximately 70% of the second quarter 2012 provision), an increase in probable loss estimates for mortgage insurance rescissions (approximately 10%), new loan sales (approximately 10%) and various other observed trends affecting our repurchase liability including higher than anticipated loss severity (approximately 10%). The increase in projected future GSE repurchase demands in the quarter was predominately a result of higher than anticipated GSE file requests, a key leading indicator of future demand activity, and higher repurchase demands, both related to loans with characteristics that did not historically result in either file reviews or repurchases. This trend was partially offset by an improving appeals success rate which reflects the on-going dialogue with the GSEs over what qualifies for repurchase.

Because of the uncertainty in the various estimates underlying the mortgage repurchase liability, there is a range of losses in excess of the recorded mortgage repurchase liability that are reasonably possible. The estimate of the range of possible loss for representations and warranties does not represent a probable loss, and is based on currently available information, significant judgment, and a number of assumptions that are subject to change. The high end of this range of reasonably possible losses in excess of our recorded liability was $2.6 billion at June 30, 2012, and was determined based upon modifying the assumptions utilized in our best estimate of probable loss to reflect what we believe to be the high end of reasonably possible adverse assumptions. For additional information on our repurchase liability, see the Critical Accounting Policies Liability for Mortgage Loan Repurchase Losses section in our 2011 Form 10-K and and Note 8 (Mortgage Banking Activities) to Financial Statements in this Report.

To the extent that economic conditions and the housing market do not improve or future investor repurchase demands and appeals success rates differ from past experience, we could continue to have increased demands and increased loss severity on repurchases, causing future additions to the repurchase liability. However, some of the underwriting standards that were permitted by the GSEs for conforming loans in the 2006 through 2008 vintages, which significantly contributed to recent levels of repurchase demands, were tightened starting in mid to late 2008. Accordingly, we do not expect, and have not experienced, a similar rate of repurchase requests from the 2009 and later vintages, absent unanticipated deterioration in economic conditions or changes in investor behavior.

RISKS RELATING TO SERVICING ACTIVITIES In addition to servicing loans in our portfolio, we act as servicer and/or master servicer of residential mortgage loans included in GSE-guaranteed mortgage securitizations, GNMA-guaranteed mortgage securitizations of FHA/VA-guaranteed mortgages and private label mortgage securitizations, as well as for unsecuritized loans owned by institutional investors. For additional information regarding risks relating to our servicing activities, see pages 73-77 in our 2011 Form 10-K.

In April 2011, the FRB and the Office of the Comptroller of the Currency (OCC) issued Consent Orders that require us to correct deficiencies in our residential mortgage loan servicing and foreclosure practices that were identified by federal banking regulators in their fourth quarter 2010 review. The Consent Orders also require that we improve our servicing and foreclosure practices. We have implemented nearly all of the operational changes that resulted from the expanded servicing responsibilities outlined in the Consent Orders.

On February 9, 2012, a federal/state settlement was announced among the DOJ, Department of Housing and Urban Development (HUD), the Department of the Treasury, the Department of Veterans Affairs, the Federal Trade Commission (FTC), the Executive Office of the U.S. Trustee, the Consumer Financial Protection Bureau, a task force of Attorneys General representing 49 states, Wells Fargo, and four other servicers related to investigations of mortgage industry servicing and foreclosure practices. While Oklahoma did not participate in the larger settlement, it settled separately with the five servicers under a simplified agreement. Under the terms of the larger settlement, which will remain in effect for three and a half years (subject to a trailing review period) we have agreed to the following programmatic commitments, consisting of three components totaling approximately $5.3 billion:

- Consumer Relief Program commitment of $3.4 billion

- Refinance Program commitment of $900 million

- Foreclosure Assistance Program of $1 billion

Additionally and simultaneously, the OCC and FRB announced the imposition of civil money penalties of $83 million and $87 million, respectively, pursuant to the Consent Orders. While still subject to FRB and OCC confirmation, Wells Fargo believes the civil money obligations were satisfied through payments made under the Foreclosure Assistance Program to the federal government and participating states for their use to address the impact of foreclosure challenges as they determine and which may include direct payments to consumers.

We began receiving credit towards satisfaction of the requirements of the Consumer Relief Program for activities taken on or after March 1, 2012. We can also receive an additional 25% credit for first or second lien principal reduction taken within one year from March 1, 2012. Because we will not receive dollar-for-dollar credit for the relief provided in some circumstances, the actual relief we provide to borrowers will likely exceed our commitment. The terms also require that we satisfy 75% of the commitments under the Consumer Relief Program within two years from March 1, 2012. If we do not meet this two-year requirement and also do not meet the entire commitment within three years, we are required to pay an amount equal to 140% of the unmet commitment amount. If we meet the two-year commitment target, but do not meet the entire commitment amount within the three years, we are required to pay an amount equal to 125% of the unmet commitment amount. We expect that we will be able to meet our commitment (and state-level sub-commitments) on the Consumer Relief Program within the required timeframes. We expect to be able to meet our Consumer Relief Program commitment primarily through our first and second lien modification and short sale and other deficiency balance waiver programs. We have evaluated our commitment along with the menu of credits and believe that fulfilling our commitment under the Consumer Relief Program has been appropriately considered in our estimation for the allowance for loan losses as well as our cash flow projections to evaluate the nonaccretable difference for our PCI portfolios at June 30, 2012.

We will receive credit under the Refinance Program for activities taken on or after March 1, 2012. The Refinance Program allows for an additional 25% credit (additional credit) for all refinance credits earned in the first 12 months of the program. We expect that we will be able to complete the number of refinances necessary to satisfy the entire credit in the first 12 months of offering the Refinance Program. If successful in this regard, the estimated lifetime amount of interest income reduction to the portfolio will be approximately $1.4 billion to $1.7 billion and the additional credit earned will be $360 million to $423 million.

We expect that we will refinance approximately 34,000 to 40,000 borrowers with an unpaid principal balance of approximately $7.0 billion to $8.0 billion under the Refinance Program. Based on the mix of loans we anticipate will be refinanced, we estimate their weighted average note rate will be reduced by approximately 260 basis points and that their weighted average estimated remaining life will be approximately 8 years. These estimates will be affected by the actual number of eligible borrowers that accept a refinance offer, their existing and new note rates and the remaining term of the actual loans refinanced. The impact of fulfilling our commitment under the Refinance Program will be recognized over a period of years in the form of lower interest income as qualified borrowers benefit from reduced interest rates on loans refinanced under the Refinance Program. Based on our expectation that we will fulfill the credit needs for the Refinance Program within the first

12 months, we expect the future reduction in interest income to be approximately $183 million to $215 million annually. As a result of refinancings under the Refinance Program, we will be forgoing interest that we may not otherwise have agreed to forgo. No loss was recognized in our financial statements for this estimated forgone interest income as the impact will be recognized over a period of years in the form of lower interest income as qualified borrowers benefit from reduced interest rates on loans refinanced under the Refinance Program. The impact of this forgone interest income on our future net interest margin is anticipated to be modestly adverse and will be influenced by the overall mortgage interest rate environment, which products are accepted by the eligible borrowers, and the pace of the execution of the program. The Refinance Program will also affect our fair value for these loans. The estimated reduction of the fair value of our loans for the Refinance Program is approximately $1.4 billion to $1.7 billion and will be affected by our actual execution of the program and borrower acceptance rates.

The expectations discussed above about the volume of loans that we may refinance, the resulting reduction in our lifetime and annual interest income, and the reductions in fair value of loans for the Refinance Program exceed the amounts that would result from just meeting our minimum commitments under the Program due to the significantly higher than expected response we have received from our customers in second quarter 2012, which is partially driven by product changes and the decision to hold interest rates consistent with the prevailing market environment.

Although this component of the settlement relates to borrowers in good standing as to their payment history who are not experiencing financial difficulty, we will evaluate each borrower to confirm their ability to repay their mortgage obligation. This evaluation will include reviewing key credit and underwriting policy metrics to validate that these borrowers are not experiencing financial difficulty and therefore, actions taken under the Refinance Program will not generally be considered a troubled debt restructuring. To the extent we determine that an eligible borrower is experiencing financial difficulty, we will consider alternative modification programs that may result in loans being classified and accounted for as troubled debt restructurings.

We expect that we will be able to meet the obligations of our commitment for the Refinance Program (and any state-level sub-commitments) and will not be required to pay for not meeting our commitment.

We have begun executing activities under both the Consumer Relief and the Refinance Programs in accordance with the terms of our commitments. We are required to provide our first report of progress against our commitments to the third party monitor on November 14, 2012.

Other Mortgage Matters On July 12, 2012, we entered into a settlement agreement with the DOJ resolving the DOJ s claims that some of our mortgages may have had a disparate impact on some African-American and Hispanic borrowers. The DOJ claims were based on a statistical survey of Wells Fargo Home Mortgage (WFHM) loans between 2004 and 2009, and the

Risk Management   Credit Risk Management ***(continued)***

claims primarily related to mortgages priced and sold to consumers by independent mortgage brokers. In the settlement, we denied the claims, but agreed to pay $125 million to borrowers that the DOJ believes were adversely impacted by mortgages priced and sold by independent mortgage brokers through the wholesale division of WFHM. The settlement also resolved pending litigation filed in 2009 by the State of Illinois and an investigative complaint filed by the Pennsylvania Human Relations Commission. As part of the settlement, we also agreed to pay $50 million to fund a community support program in approximately eight cities or metropolitan statistical areas, as to be agreed upon between the DOJ and Wells Fargo, and agreed to undertake an internal lending compliance review of a small percentage of subprime mortgages delivered through our retail channel during the period of 2004 to 2008 and will rebate borrowers as appropriate. Expenses related to the settlement were fully accrued for as of the end of second quarter 2012. While not part of the settlement, Wells Fargo also announced that as of July 13, 2012, it voluntarily discontinued the funding of mortgages that are originated, priced and sold by independent mortgage brokers through the WFHM wholesale division. Mortgages sold by independent mortgage brokers in this manner represented approximately 5% of Wells Fargo s home mortgage funded volume in second quarter 2012. For additional information on this and other legal matters related to our mortgage servicing activities and mortgage-related practices, see pages 73-77 in our 2011 Form 10-K and Note 11 (Legal Actions) to Financial Statements in this Report.

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Asset/Liability Management

Asset/liability management involves evaluating, monitoring and managing of interest rate risk, market risk, liquidity and funding. The Corporate Asset/Liability Management Committee (Corporate ALCO), which oversees these risks and reports periodically to the Finance Committee of the Board of Directors, consists of senior financial and business executives. Each of our principal business groups has its own asset/liability management committee and process linked to the Corporate ALCO process.

INTEREST RATE RISK Interest rate risk, which potentially can have a significant earnings impact, is an integral part of being a financial intermediary. We assess interest rate risk by comparing our most likely earnings plan with various earnings simulations using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, as of June 30, 2012, our most recent simulation indicated estimated earnings at risk of less than 1% of our most likely earnings plan over the next 12 months under a range of both lower and higher interest rates, including a scenario in which the federal funds rate remains unchanged and the 10-year Constant Maturity Treasury bond yield averages below 1.20%, and a scenario in which the federal funds rate rises to 3.75% and the 10-year Constant Maturity Treasury bond yield increases to 5.10%. Simulation estimates depend on, and will change with, the size and mix of our actual and projected balance sheet at the time of each simulation. Due to timing differences between the quarterly valuation of MSRs and the eventual impact of interest rates on mortgage banking volumes, earnings at risk in any particular quarter could be higher than the average earnings at risk over the 12-month simulation period, depending on the path of interest rates and on our hedging strategies for MSRs. See the Risk Management Mortgage Banking Interest Rate and Market Risk below for more information.

We use exchange-traded and over-the-counter (OTC) interest rate derivatives to hedge our interest rate exposures. The notional or contractual amount, credit risk amount and estimated net fair value of these derivatives as of June 30, 2012, and December 31, 2011, are presented in Note 12 (Derivatives) to Financial Statements in this Report.

For additional information regarding interest rate risk, see page 78 of our 2011 Form 10-K.

MORTGAGE BANKING INTEREST RATE AND MARKET RISK We originate, fund and service mortgage loans, which subjects us to various risks, including credit, liquidity and interest rate risks. For a discussion of mortgage banking interest rate and market risk, see pages 78-80 of our 2011 Form 10-K.

While our hedging activities are designed to balance our mortgage banking interest rate risks, the financial instruments we use may not perfectly correlate with the values and income being hedged. For example, the change in the value of ARM production held for sale from changes in mortgage interest rates may or may not be fully offset by Treasury and LIBOR index-based financial instruments used as economic hedges for such ARMs. Additionally, hedge-carry income on our economic

hedges for the MSRs may not continue if the spread between short-term and long-term rates decreases, we shift composition of the hedge to more interest rate swaps, or there are other changes in the market for mortgage forwards that affect the implied carry.

The total carrying value of our residential and commercial MSRs was $13.2 billion at June 30, 2012, and $14.0 billion at December 31, 2011. The weighted-average note rate on our portfolio of loans serviced for others was 4.97% at June 30, 2012, and 5.14% at December 31, 2011. The carrying value of our total MSRs represented 0.69% of mortgage loans serviced for others at June 30, 2012, and 0.76% at December 31, 2011.

MARKET RISK TRADING ACTIVITIES From a market risk perspective, our net income is exposed to changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices and their implied volatilities. The primary purpose of our trading businesses is to accommodate customers in the management of their market price risks. Also, we take positions based on market expectations or to benefit from price differences between financial instruments and markets, subject to risk limits established and monitored by our Corporate ALCO. All securities, foreign exchange transactions, commodity transactions and derivatives used in our trading businesses are carried at fair value. Our Market and Institutional Risk Committee, which provides governance and oversight over market risk-taking activities across the Company, establishes and monitors counterparty risk limits. The credit risk amount and estimated net fair value of all customer accommodation derivatives at June 30, 2012, and December 31, 2011, are included in Note 12 (Derivatives) to Financial Statements in this Report. Open at risk positions for all trading businesses are monitored by Corporate ALCO. Table 32 presents net gains from trading activities attributable to the following types of activity:

Table 32: Trading Activities

(in millions)	Quarter ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Customer accommodation	**$ 356**	190	**690**	687
Economic hedging	**(92)**	247	**199**	348
Proprietary	**(1)**	(23)	**14**	(9)
Total net trading gains (losses)	**$ 263**	414	**903**	1,026

The amounts reflected in the table above capture only gains (losses) due to changes in fair value of our trading positions and are reported within net gains (losses) on trading activities within the noninterest income line item of the income statement. These amounts do not include interest income and other fees earned from related activities, which are reported within interest income from trading assets and other fees within noninterest income line items of the income statement. Categorization of net gains (losses) from trading activities in the previous table is based on our own definition of those categories, as further described below, because no uniform industry definitions currently exist.

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Risk Management Asset/Liability Management *(continued)*

Customer accommodation trading consists of security or derivative transactions conducted in an effort to help customers manage their market price risks and are done on their behalf or driven by their investment needs. For the majority of our customer accommodation trading we serve as intermediary between buyer and seller. For example, we may enter into financial instruments with customers who use the instruments for risk management purposes and offset our exposure on such contracts by entering into separate instruments. Customer accommodation trading also includes net gains related to market-making activities in which we take positions to facilitate expected customer order flow.

Economic hedges consist primarily of cash or derivative positions used to facilitate certain of our balance sheet risk management activities that did not qualify for hedge accounting or were not designated in a hedge accounting relationship. Economic hedges may also include securities that we elected to carry at fair value with changes in fair value recorded to earnings in order to mitigate accounting measurement mismatches or avoid embedded derivative accounting complexities.

Proprietary trading consists of security or derivative positions executed for our own account based on market expectations or to benefit from price differences between financial instruments and markets. Proprietary trading activity is expected to be restricted by the Dodd-Frank Act prohibitions known as the Volcker Rule, which has not yet been finalized. On October 11, 2011, federal banking agencies and the SEC issued for public comment proposed regulations to implement the Volcker Rule. We believe our definition of proprietary trading is consistent with the proposed regulations. However, given that final rule-making is required by various governmental regulatory agencies to define proprietary trading within the context of the final Volcker Rule, our definition of proprietary trading may change. We have reduced or exited certain business activities in anticipation of the final Volcker Rule. As discussed within the noninterest income section of our financial results, proprietary trading activity is not significant to our financial results. See the Regulatory Reform sections in our 2011 Form 10-K and in our 2012 First Quarter Form 10-Q for additional information on the Volcker Rule.

The fair value of our trading derivatives is reported in Notes 12 (Derivatives) and 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report. The fair value of our trading securities is reported in Note 13 (Fair Values of Assets and Liabilities) to Financial Statements in this Report.

The standardized approach for monitoring and reporting market risk for the trading activities consists of value-at-risk (VaR) metrics complemented with sensitivity analysis and stress testing. VaR measures the worst expected loss over a given time interval and within a given confidence interval. We measure and report daily VaR at a 99% confidence interval based on actual changes in rates and prices over the previous 250 trading days. The analysis captures all financial instruments that are considered trading positions. The average one-day VaR throughout second quarter 2012 was $31 million, with a lower bound of $22 million and an upper bound of $50 million.

MARKET RISK EQUITY MARKETS We are directly and indirectly affected by changes in the equity markets. For additional information regarding market risk related to equity markets, see page 81 of our 2011 Form 10-K.

Table 33 provides information regarding our marketable and nonmarketable equity investments.

Table 33: Nonmarketable and Marketable Equity Investments

(in millions)		**June 30, 2012**	Dec. 31, 2011
Nonmarketable equity investments:			
Cost method:			
Private equity investments	**$**	**3,691**	3,444
Federal bank stock		**4,432**	4,617

Total cost method		**8,123**	8,061
Equity method:			
LIHTC investments (1)		**4,073**	4,077
Private equity and other		**4,792**	4,670
Total equity method		**8,865**	8,747
Total nonmarketable equity investments (2)	**$**	**16,988**	16,808
Marketable equity securities:			
Cost	**$**	**2,478**	2,929
Net unrealized gains		**369**	488
Total marketable equity securities (3)	**$**	**2,847**	3,417

(1) Represents low income housing tax credit investments
(2) Included in other assets on the balance sheet. See Note 6 (Other Assets) to Financial Statements in this Report for additional information.
(3) Included in securities available for sale. See Note 4 (Securities Available for Sale) to Financial Statements in this Report for additional information.

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LIQUIDITY AND FUNDING The objective of effective liquidity management is to ensure that we can meet customer loan requests, customer deposit maturities/withdrawals and other cash commitments efficiently under both normal operating conditions and under unpredictable circumstances of industry or market stress. To achieve this objective, the Corporate ALCO establishes and monitors liquidity guidelines that require sufficient asset-based liquidity to cover potential funding requirements and to avoid over-dependence on volatile, less reliable funding markets. We set these guidelines for both the consolidated balance sheet and for the Parent to ensure that the Parent is a source of strength for its regulated, deposit-taking banking subsidiaries.

Unencumbered debt and equity securities in the securities available-for-sale portfolio provide asset liquidity, in addition to

the immediately liquid resources of cash and due from banks and federal funds sold, securities purchased under resale agreements and other short-term investments. Asset liquidity is further enhanced by our ability to sell or securitize loans in secondary markets and to pledge loans to access secured borrowing facilities through the Federal Home Loan Banks (FHLB) and the FRB.

Core customer deposits have historically provided a sizeable source of relatively stable and low-cost funds. At June 30, 2012, core deposits funded 114% of total loans compared with 108% a year ago. Additional funding is provided by long-term debt, other foreign deposits, and short-term borrowings.

Table 34 shows selected information for short-term borrowings, which generally mature in less than 30 days.

Table 34: Short-Term Borrowings

					Quarter ended
(in millions)	**June 30, 2012**	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Balance, period end					
Commercial paper and other short-term borrowings	**$**				